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An Analysis of the President's Budgetary Proposals for Fiscal Year 1992

Prepared at the Request of the
Senate Committee on Appropriations

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AN ANALYSIS OF THE PRESIDENT'S BUDGETARY PROPOSALS FOR FISCAL YEAR 1992

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NOTES

Unless otherwise indicated, all years referred to in Chapter II are calendar years, and all years in other chapters and Appendix A are fiscal years.

Unemployment rates throughout the report are calculated on the basis of the civilian labor force.

Details in the text and tables of this report may not add to totals because of rounding.

The source of data concerning President Bush's budget is the Office of Management and Budget. The source of other data, unless otherwise noted, is the Congressional Budget Office.

The Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as Gramm-Rudman-Hollings) is also referred to in this volume more briefly as the Balanced Budget Act. This act was amended by the Omnibus Budget Reconciliation Act of 1990, referred to in this volume as OBRA or the reconciliation act.

A glossary of economic and budget terms used in this report appears in Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1992-1996* (January 1991).

PREFACE

This analysis of the President's budget for fiscal year 1992 was prepared at the request of the Senate Committee on Appropriations. The report discusses the President's policies in terms of changes from the Congressional Budget Office (CBO) baseline budget projections for 1992 through 1996. It provides estimates of the budgetary impact of the Administration's proposals using CBO's economic and technical estimating methods.

This report was prepared by the staffs of the Budget Analysis, Fiscal Analysis, and Tax Analysis Divisions under the supervision of James L. Blum, Frederick C. Ribe, and Rosemary D. Marcuss. Paul N. Van de Water was responsible for Chapter I; Robert W. Arnold for Chapter II; Rosemary D. Marcuss for Chapter III; Michael A. Miller for Chapter IV; Charles E. Seagrave and Robert A. Sunshine for Chapter V; and Kathy A. Ruffing for Appendix A. The principal contributors to the revenue and spending estimates and analysis are listed in Appendix B.

Paul L. Houts supervised the editing and production of the report. Major portions were edited by Sheila Harty, Francis S. Pierce, and Sherry Snyder. Nancy H. Brooks provided editorial support during production. The authors wish to thank Cindy Cleveland, Marion Curry, Wanda Holmes, Janice Johnson, Verlinda Lewis, L. Rae Roy, Simone Thomas, and Emma Tuerk for typing the many drafts. Kathryn Quattrone prepared the report for publication with the assistance of Martina Wojak.

Robert D. Reischauer
Director

March 1991

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CHAPTER I

SUMMARY AND INTRODUCTION

The Bush Administration's 1992 budget is largely shaped by last year's budget summit agreement, as incorporated in the Budget Enforcement Act of 1990. Nonetheless, the Congressional Budget Office (CBO) estimates that the budget violates some of the requirements of the new law. Specifically, the budget breaches the limits on discretionary spending in 1992 as well as in the following three years. CBO also estimates that the Administration's proposed changes in mandatory spending and revenues would increase the deficit in 1994 and 1995, thus violating the pay-as-you-go discipline for those years, if no further actions were taken before 1994. For 1992 and 1993, the Administration's mandatory spending and receipt proposals would slightly reduce the deficit.

Both CBO and the Administration estimate that the total federal deficit, including Social Security and the Postal Service, will top $300 billion in 1991. The Administration projects that its policies will achieve a near balance in the total budget by 1995 and a small surplus in 1996. CBO's economic and technical estimating assumptions are less optimistic than those of the Administration. Even so, CBO projects that by 1995 the total federal deficit under Administration policies will fall below $100 billion for the first time in 15 years.

While the total deficit has been the exclusive focus of attention in the past, two other deficit measures are now likely to be considered as well. One is the deficit excluding deposit insurance--the best simple measure of the government's effect on the economy. Federal spending to close or subsidize the sale of insolvent savings and loan institutions and banks will amount to roughly $100 billion in both 1991 and 1992, slow sharply in 1993 and 1994, and turn negative in 1995 and 1996, when the proceeds from asset sales will exceed the costs of closing failed institutions. These large swings in spending on deposit insurance do not represent changes in the federal government's effect on the

economy and have little impact on interest rates. Excluding deposit insurance, CBO estimates that the federal deficit under the President's policies would decline gradually from about $200 billion in 1991 to about $100 billion in 1996. The other deficit measure that will receive attention is the on-budget deficit, which excludes the receipts and outlays of the Postal Service and the two Social Security trust funds. Table I-1 shows all three measures of the deficit.

THE NEW BUDGET PROCESS

The Budget Enforcement Act establishes three major budgetary rules--dollar limits on discretionary spending, a pay-as-you-go requirement for most mandatory spending and revenues, and flexible deficit targets. Congressional procedures have been strengthened to assure that any new legislation conforms to the new rules. If these procedures fail, automatic cutbacks (termed sequestration) will do the job. While CBO is required to provide estimates at each stage of the budget process, CBO's estimates will be relevant only for enforcement of the Congressional budget resolution. The estimates of the Office of Management and Budget (OMB) will be controlling for purposes of seques-

TABLE I-1. CBO ESTIMATES OF THE DEFICIT UNDER ADMINISTRATION POLICIES
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
Total Deficit	308	290	221	173	71	56
Deficit Excluding Deposit Insurance	205	192	173	149	118	99
On-Budget Deficit (Excluding Social Security and Postal Service)	368	359	300	270	183	184

SOURCE: Congressional Budget Office.

tration. This section summarizes the new budget process. A more detailed description may be found in Chapter II of CBO's January report, *The Economic and Budget Outlook: Fiscal Years 1992-1996.*

Discretionary Spending Limits

Discretionary spending is controlled by annual appropriations. The Budget Enforcement Act divides discretionary appropriations into three parts--defense, international, and domestic. For 1991, 1992, and 1993, there are separate limits on budget authority and outlays for each of these three components. For 1994 and 1995, budget authority and outlay caps are set for discretionary spending as a whole If defense, international, or domestic discretionary spending exceeds its budget authority or outlay limit, the excess will be eliminated through an across-the-board cutback, or sequestration, affecting only the offending category. A few discretionary programs are exempt, and some health programs are subject to a maximum cut of 2 percent, but most discretionary spending is subject to sequestration.

Like most of the other numbers in the Budget Enforcement Act, the discretionary spending limits will be adjusted periodically according to rules specified in law. Adjustments to the discretionary spending limits will be made twice each year--at the beginning and at the end of a session of the Congress. In the fiscal year 1992 budget, OMB adjusted the caps for changes in budgetary concepts and definitions made by the Budget Enforcement Act and for differences between actual and estimated inflation for fiscal year 1990. After the Congress adjourns, the caps will be adjusted again to reflect any additional amounts appropriated for enforcement activities of the Internal Revenue Service (up to a specified limit), International Monetary Fund quota increases, certain debt forgiveness, or designated emergencies. In addition, the international discretionary cap will be increased by about $1.2 billion in budget authority, and the domestic cap will be increased by $1.5 billion, with corresponding increases in outlays.

Mandatory Spending and Revenues

Unlike discretionary appropriations, spending for entitlements and other mandatory programs (also called direct spending) does not require annual decisions on funding levels. Instead, these programs (of which the largest are Social Security, Medicare and Medicaid, and federal civilian and military retirement) continue making payments to eligible recipients unless the Congress changes the underlying laws. Under the new procedures, changes in revenues and most mandatory spending are now required to be deficit-neutral in each year. Special rules apply to Social Security, deposit insurance, and asset sales.

Pay-As-You-Go. The Budget Enforcement Act provides that changes in mandatory spending programs and in governmental receipts combined must not increase the deficit in any year. An entitlement program can be increased only if another entitlement is cut or if taxes or fees are raised. Similarly, a tax can be cut only if another is increased or if entitlement spending is reduced. This requirement, which is termed pay-as-you-go, applies not to each new law individually, but to the total of all laws affecting a fiscal year. As with discretionary spending, spending for designated emergencies is exempt from the pay-as-you-go requirement.

If changes in mandatory spending or receipts increase the deficit in any year, a pay-as-you-go sequestration will be triggered, and certain mandatory programs would be cut to the extent necessary to eliminate the overage. Unlike discretionary spending, most mandatory spending--including means-tested programs, unemployment compensation, and retirement and disability benefits--is not subject to sequestration. Medicare is subject to a maximum pay-as-you-go reduction of 4 percent.

Other Mandatory Spending. Some mandatory spending and receipts are not subject to the general pay-as-you-go requirement of the Budget Enforcement Act. First, Social Security and the Postal Service are classified as off-budget. (Social Security has its own special pay-as-you-go rules.) Second, spending necessary to meet the government's existing deposit insurance commitments is not regarded as a change in policy, even if the Congress and the Administration must provide addi-

tional resources to finish the job. Third, proceeds from asset sales cannot be counted as deficit reduction. Fourth, changes in mandatory programs or receipts that stem indirectly from changes in discretionary spending are not included on the pay-as-you-go scorecard.

Deficit Targets

The Budget Enforcement Act eliminated the fixed deficit targets that characterized the 1985 Gramm-Rudman-Hollings law and its 1987 revision. Although the deficit is likely to fall significantly between now and 1995 as a result of the spending cuts and tax increases enacted last year, the new version of Gramm-Rudman-Hollings does not guarantee this result, as previous versions purported to do. The Budget Enforcement Act establishes deficit targets through 1995, but the targets are not constraining through at least 1993. There are two reasons for this. First, the President must adjust the deficit targets for revised economic and technical assumptions and for any adjustments to the discretionary caps when submitting the budgets for fiscal years 1992 and 1993. Second, the economic and technical assumptions used to prepare the budget must be used by OMB for all subsequent calculations that year. Sequestration to enforce the discretionary spending limits and the pay-as-you-go requirements will assure that there will be no separate sequestration to achieve the deficit targets in 1992 and 1993.

Credit Reform

The Budget Enforcement Act changed the way that federal credit programs are reflected in the budget and brought them within the scope of the discretionary spending limits, pay-as-you-go requirements, and other budget enforcement provisions starting in fiscal year 1992. Previously, federal direct loans and loan guarantees were included in the budget on a cash-flow basis. Henceforth, the government's long-run cost, or subsidy, for a direct loan or loan guarantee will be recorded as a budget outlay at the time the loan is disbursed. This change in accounting, termed credit reform, places direct loans, loan guarantees, and other federal spending on an equal footing. Discretionary credit

programs will be included in the discretionary spending caps, and appropriate adjustments have been made to the caps as stated in the Budget Enforcement Act so that the accounting change does not disadvantage the Appropriations Committees.

CBO AND ADMINISTRATION BUDGET ESTIMATES

CBO and the Administration do not differ sharply in their views of the economy's likely performance through 1992, helping to narrow the gap between the two agencies' short-run budget projections. But in the 1994-1996 period, differences between CBO's and OMB's deficit estimates are substantial, peaking at a staggering $112 billion in 1994 (see Table I-2). A major cause of these differences is the assumed pattern of deposit insurance spending, a category of spending that is notoriously difficult to predict. In addition, CBO estimates steadily lower revenues and higher interest costs than does OMB, driving up its estimate of the deficit.

Reestimates to Pay-As-You-Go Proposals

The Budget Enforcement Act shifted the focus away from fixed deficit targets and toward attaining (or surpassing) the savings agreed to in the summit agreement. Thus, from an enforcement standpoint, differences in OMB and CBO estimates of the Administration's pay-as-you-go proposals take on key importance. The biggest disagreement between CBO and OMB lies in their estimates of the Administration's proposal to reduce taxes on capital gains. Both agencies concur that the proposed 30 percent exclusion would boost revenues in 1991 and 1992, when taxpayers respond with a burst of asset sales. The Administration believes that the proposal would generate extra revenues in later years as well; in contrast, CBO and the Joint Committee on Taxation believe the proposal will reduce revenues beginning in 1993. Reestimates to other pay-as-you-go proposals are modest in total.

TABLE I-2. DIFFERENCES BETWEEN ADMINISTRATION AND CBO ESTIMATES OF THE PRESIDENT'S PROPOSED BUDGET
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
Administration Deficit or Surplus Estimate[a]	318	281	202	62	3	(20)
Reestimates to Pay-As-You-Go Proposals[b]						
Capital gains proposal[c]	d	-1	5	5	6	5
Other proposals	d	d	2	2	1	2
Subtotal	d	-1	7	7	7	7
Other Economic Reestimates						
Revenues[c]	-9	-11	-1	18	29	40
Benefit programs	d	-2	-5	-6	-8	-8
Net interest	1	4	11	14	18	21
Subtotal	-9	-9	4	25	39	53
Other Technical Reestimates						
Revenues[c]	7	4	3	17	24	30
Deposit insurance[e]	-9	7	-1	57	-11	-17
Proposed asset sales[f]	0	d	2	-2	1	-1
Benefit programs	-4	-5	-6	-7	-8	-10
Defense	1	3	1	4	d	-4
Net interest[e]	2	2	4	8	12	13
Other outlays	2	7	6	2	3	4
Subtotal	-1	18	8	79	22	15
Total Reestimates	-10	9	19	112	68	76
Administration's Proposed Deficit as Estimated by CBO	308	290	221	173	71	56
Memoranda:						
Total Economic Reestimates	-9	-8	5	26	39	54
Total Technical Reestimates	-1	17	14	86	29	22

SOURCES: Congressional Budget Office; Joint Committee on Taxation; and Office of Management and Budget.

a. Figures in parentheses represent estimated surpluses.

b. The reestimates are almost wholly technical.

c. Revenue reductions are shown as positive because they add to the deficit.

d. Less than $500 million.

e. Excludes reestimates of interest payments by the deposit insurance agencies to the Federal Financing Bank, which are intrabudgetary.

f. Asset sales are ineligible for pay-as-you-go scoring.

Other Economic and Technical Reestimates

In the short run, CBO's economic forecast is slightly more upbeat than the Administration's, boosting revenues and lowering the deficit. But after 1992, CBO envisions more modest economic growth than does the Administration; on average, CBO's assumed growth rate of real GNP falls almost a half of a percentage point shy of the Administration's. As a result, CBO's estimates of the revenues that current tax laws would generate diverge more and more from the Administration's over time. The medium-term economic assumptions that underlie CBO's estimates are close to the consensus of private-sector forecasters, as discussed in Chapter II, while those of the Administration are clearly optimistic. Furthermore, even if CBO used exactly the same assumptions about economic growth and incomes as OMB, CBO would estimate consistently lower revenues; this disagreement over effective tax rates is classified as technical.

Deposit insurance is by far the most volatile area of disagreement. CBO estimates lower spending than the Administration in all years for the Bank Insurance Fund, which primarily insures commercial bank deposits. Projections for the Resolution Trust Corporation (RTC), the chief agency responsible for the savings and loan cleanup, vary wildly, peaking in a huge estimating difference in 1994. CBO assumes that RTC will resolve about 1,600 failed or failing institutions through 1994. OMB optimistically assumes a caseload of just over 1,000 institutions, permitting RTC to wind up its work in 1993. CBO and OMB differ as well about outlays of working capital (that is, the portion of the money spent by RTC to acquire assets that eventually will be recouped); CBO estimates a greater need for working capital in the 1992-1994 period, and greater receipts in later years.

Net interest estimates are another area of difference. CBO assumes higher interest rates than does the Administration, fueling net interest costs. And CBO's reestimates to revenues and noninterest spending join to raise the estimated borrowing needs of the government, adding to debt service costs. Other economic and technical reestimates are scattered over many spending areas.

THE ADMINISTRATION'S BUDGET PROGRAM

The budget baseline has traditionally served as the benchmark against which the Administration's budget program is measured. For tax revenues and mandatory spending, the baseline generally assumes that laws now on the statute books will continue. For defense, international, and domestic discretionary spending, the baseline projections are based on the most recent appropriations, increased only to keep pace with inflation. The baseline no longer represents current budgetary policy, however, because the new dollar limits for discretionary appropriations are below the baseline levels. Assuming that discretionary spending is held to the caps, CBO projects that the baseline deficit would be $294 billion in 1992, $221 billion in 1993, and less than $70 billion in 1995 and 1996. (Appendix A summarizes the current baseline budget projections, which incorporate minor revisions to those CBO released in January.)

Table I-3 shows the Administration's budget proposals in the three major categories established by the Budget Enforcement Act--discre-

TABLE I-3. THE ADMINISTRATION'S POLICY PROPOSALS AS ESTIMATED BY CBO (By fiscal year, in billions of dollars)

	1992	1993	1994	1995	1996
CBO Deficit Estimate Assuming Discretionary Caps[a]	294	221	169	69	66
Policy Changes					
Discretionary	5	1	4	1	-12
Pay-As-You-Go					
Spending	-6	-6	-4	-5	-6
Revenues[b]	-3	4	6	7	9
Subtotal	-9	-2	2	1	3
Other mandatory	-1	c	-2	c	-1
Total	-4	c	4	2	-10
President's Budget as Estimated by CBO	290	221	173	71	56

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

NOTE: The estimates include Social Security and the Postal Service, which are off-budget.

a. The discretionary spending limits apply only through 1995. The 1996 figure is a baseline projection.

b. Revenue increases are shown with a negative sign because they reduce the deficit.

c. Less than $500 million.

tionary spending, mandatory spending and revenues subject to pay-as-you-go, and other mandatory spending. CBO estimates that the Administration's proposals for discretionary spending would exceed the outlay limits by $5 billion in 1992, $1 billion in 1993, $4 billion in 1994, and $1 billion in 1995. The Administration's pay-as-you-go proposals would reduce the deficit by $9 billion in 1992 and $2 billion in 1993 but would increase the deficit by small amounts in later years. Other mandatory spending proposals, primarily asset sales that cannot be counted for purposes of pay-as-you-go, would reduce the deficit by $1 billion in 1992 and by similarly small amounts thereafter. Table I-4 shows CBO's estimates of the Administration's budget program by major tax source and spending category.

Discretionary Spending

CBO estimates that the Administration's proposals for discretionary spending would exceed the outlay limits each year. For fiscal year 1992, the excess totals $5.4 billion--$2.9 billion in defense, $0.2 billion in international, and $2.2 billion in domestic discretionary spending. While the budget exceeds the discretionary caps by smaller amounts after 1992, the appropriation figures for the out-years are less relevant, because the Appropriations Committees will consider only the 1992 request this year.

Defense Discretionary Spending. Consistent with the caps, the Bush Administration is requesting defense discretionary appropriations for 1992 and 1993 of $291 billion, an increase of $2 billion over 1991. These amounts represent reductions in real purchasing power of 4 percent in 1992 and another 4 percent in 1993. Beyond 1993, when there are no defense caps, the Administration is requesting continued real decreases (that is, small nominal increases) in defense discretionary appropriations. These figures do not include any additional appropriations for the costs of Operation Desert Storm, which are to be treated as an emergency need and will result in a corresponding increase in the discretionary spending limits.

TABLE I-4. CBO ESTIMATES OF THE PRESIDENT'S BUDGET
(By fiscal year)

	1991	1992	1993	1994	1995	1996
	In Billions of Dollars					
Revenues						
Individual income	489	531	564	606	653	699
Corporate income	99	102	106	107	107	109
Social insurance	404	434	465	498	530	562
Other	101	105	111	115	119	116
Total	1,094	1,172	1,246	1,325	1,409	1,486
Outlays						
Defense discretionary	300	299	293	291	289	290
International discretionary	19	20	21	21	21	22
Domestic discretionary	200	214	225	229	233	239
Subtotal	519	533	539	542	544	551
Desert Storm	8	5	1	a	0	0
Mandatory[b]	572	617	658	700	746	793
Deposit insurance	103	97	47	25	-47	-43
Net interest	199	210	222	232	237	241
Total	1,402	1,462	1,467	1,499	1,479	1,542
Deficit	308	290	221	173	71	56
	As a Percentage of GNP					
Revenues						
Individual income	8.7	8.9	8.8	8.9	9.0	9.1
Corporate income	1.8	1.7	1.6	1.6	1.5	1.4
Social insurance	7.2	7.2	7.3	7.3	7.3	7.3
Other	1.8	1.7	1.7	1.7	1.6	1.5
Total	19.4	19.5	19.5	19.5	19.4	19.3
Outlays						
Defense discretionary	5.3	5.0	4.6	4.3	4.0	3.8
International discretionary	0.3	0.3	0.3	0.3	0.3	0.3
Domestic discretionary	3.6	3.6	3.5	3.4	3.2	3.1
Subtotal	9.2	8.9	8.4	8.0	7.5	7.2
Desert Storm	0.1	0.1	c	c	0	0
Mandatory[b]	10.2	10.3	10.3	10.3	10.3	10.3
Deposit insurance	1.8	1.6	0.7	0.4	-0.6	-0.6
Net interest	3.5	3.5	3.5	3.4	3.3	3.1
Total	24.9	24.4	22.9	22.0	20.4	20.0
Deficit	5.5	4.8	3.4	2.5	1.0	0.7

SOURCE: Congressional Budget Office.
NOTE: The projections include Social Security and the Postal Service, which are off-budget.
a. Less than $500 million.
b. Includes offsetting receipts and defense mandatory spending.
c. Less than 0.05 percent of GNP.

While the Administration's defense request comports with the budget authority limits, CBO estimates that it exceeds the outlay limits by $2.9 billion in 1992 and $0.8 billion in 1993. Of the 1992 overage, $2.3 billion arises because the Administration has, in CBO's view, inappropriately claimed savings for a proposal to change the budgetary accounting for funds that the Defense Department transfers to intelligence agencies. While this proposal would reduce reported outlays, it would neither result in any real savings to the government nor reduce government borrowing needs. The proposal is analogous to the change in accounting for federal credit programs. Therefore, CBO believes that the Administration should have lowered the defense discretionary cap by an equal amount, in the same manner as it adjusted the domestic discretionary limits for credit reform.

The budget also contains two other defense proposals that, CBO believes, the Administration has used inappropriately to hold down defense discretionary spending in later years. The first proposal involves the timing of military pay. When a pay date falls on a weekend, the law allows the Department of Defense to issue military pay checks on the previous Friday. Because the first paydays of fiscal years 1995 and 1996 will fall on a weekend, CBO assumes these paydays will be advanced to the previous fiscal years, consistent with normal Defense Department practice. The Administration has not made this assumption, however, thereby holding down 1994 outlays by $3.6 billion.

The Administration also proposes a change in the method of accounting for the accrued retirement costs of members of the armed services. As described by the Administration, this proposal would reduce military personnel spending by about $3 billion per year in 1994 and thereafter, but it would reduce receipts to the Military Retirement Trust Fund by exactly the same amount and leave the deficit unaffected. There are two ways of assuring that this accounting change has no effect on the deficit. Either the defense cap could be reduced by the amount of the reduction in defense spending, or the loss in receipts to the trust fund could be charged on the pay-as-you-go scorecard. The Administration has not made either adjustment. CBO assumes the latter in its reestimate of the President's budget.

International Discretionary Spending. The Administration is requesting international discretionary appropriations of $34 billion in 1992. Of this amount, $12 billion is a proposed increase in the United States quota with the International Monetary Fund, which, if appropriated, would automatically increase the discretionary spending limits, as provided in the Budget Enforcement Act. The Administration is also requesting real increases in spending for the Enterprise for the Americas Initiative, construction and rehabilitation of State Department buildings, and a Presidential contingency fund. While the budget complies with the limit on international discretionary budget authority for 1992, CBO estimates that outlays for international affairs would go over the limit by $0.2 billion.

Domestic Discretionary Spending. The budget authority cap for domestic discretionary spending is slightly above the baseline--the amount needed to maintain a constant level of real domestic discretionary spending in 1992. But appropriating this amount of budget authority would cause outlays to exceed the cap by $3.6 billion (see Table I-5). Therefore, the budget proposes reductions of $2.3 billion in budget authority, compared with the baseline. While this would reduce outlays by $1.4 billion, outlays still breach the cap by $2.2 billion, according to CBO's estimates. CBO's estimates of discretionary outlays exceed the Administration's estimates by $0.6 billion in transportation, $0.5 billion in energy, $0.4 billion in natural resources, and $0.3 billion each in veterans benefits and the administration of justice.

While domestic discretionary spending as a whole must grow less rapidly than inflation in order to meet the outlay caps, the Administration is proposing substantial real increases in spending for science and space and for the administration of justice, thereby necessitating deeper cuts in other areas. Some of the largest cuts relative to the baseline would be made in social services, where the President proposes to eliminate both grants to states for certain costs of legalizing undocumented aliens and also community services block grants. In the community and regional development function, the President proposes to reduce funding for community development block grants and to eliminate the programs of the Economic Development Administration. The budget counts as reductions in discretionary spending about $0.9 billion in new or increased user fees, including fees for Medicaid and

Medicare certification, Food and Drug Administration reviews, and veterans medical care copayments. CBO believes that the Budget Enforcement Act requires all changes in direct spending and receipts to be counted on the pay-as-you-go scorecard, but this report follows the Administration's treatment of such changes as discretionary if they are included in appropriation bills.

TABLE I-5. THE ADMINISTRATION'S PROPOSALS FOR DOMESTIC DISCRETIONARY SPENDING IN FISCAL YEAR 1992 (In billions of dollars)

Function	CBO Baseline		President's Budget as Estimated by CBO		Difference	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
General Science, Space, and Technology	17.1	16.5	18.9	17.5	1.8	1.1
Energy	5.8	5.2	5.3	5.3	-0.5	a
Natural Resources and Environment	20.7	20.4	20.1	20.3	-0.6	-0.1
Agriculture	3.6	3.6	3.1	3.1	-0.6	-0.5
Commerce and Housing Credit	3.8	3.4	2.7	2.6	-1.1	-0.9
Transportation	14.5	33.4	15.6	33.1	1.2	-0.3
Community and Regional Development	6.0	6.1	5.4	6.1	-0.7	a
Education, Training, Employment and Social Services	34.7	33.2	32.8	32.3	-1.9	-0.9
Health	19.0	18.3	18.3	17.9	-0.7	-0.4
Medicare	2.8	2.7	2.6	2.4	-0.2	-0.3
Income Security	29.7	29.4	30.9	29.4	1.2	a
Social Security	0	2.5	0	2.5	0	0.1
Veterans Benefits and Services	15.5	15.4	15.3	15.2	-0.2	-0.2
Administration of Justice	13.3	13.5	14.6	14.5	1.2	1.1
General Government	13.0	12.0	11.5	11.9	-1.5	-0.1
Allowances	0	0	0.1	0.1	0.1	0.1
Total	199.6	215.7	197.2	214.2	-2.3	-1.4
Domestic Discretionary Cap	200.1	212.1	200.1	212.1	n.a.	n.a.
Difference	-0.5	3.6	-2.9	2.2	n.a.	n.a.

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable.

a. Less than $50 million.

Pay-As-You-Go Proposals

The Administration estimates that its pay-as-you-go proposals would reduce the deficit by $8 billion to $10 billion per year in 1992 through 1995. CBO's estimate is similar to the Administration's for 1992 but diverges sharply thereafter, as shown in Table I-6. The difference has three sources. First, CBO and the Administration differ in their estimates of particular proposals, notably the capital gains exclusion. Second, the Administration improperly includes receipts from leasing the Elk Hills naval petroleum reserve (NPR) and the Alaska National Wildlife Refuge (ANWR) for oil drilling, which CBO regards as asset sales. Third, the Administration fails to count the loss in receipts stemming from the proposal to change military retirement accruals.

Spending Proposals. The Administration's pay-as-you-go spending proposals would reduce outlays by $4 billion to $6 billion per year. Proposed Medicare cuts would save $3 billion in 1992, growing to $6 billion in 1995 and 1996. About three-quarters of the Medicare savings would stem from reducing payments to providers, mostly hospitals, and one-quarter would come from increasing copayments and premiums paid by beneficiaries. Proposals to reduce defaults on veterans housing and guaranteed student loans would reduce credit subsidies by $2 billion in 1992 and by smaller amounts in later years. Increasing interest charged on loans to power marketing administrations (PMAs) would bring in $0.4 billion per year in additional offsetting receipts starting in 1993. The proposed reduction in military retirement charges would increase outlays by $3 billion annually in 1994 and later years.

Revenue Proposals. The Administration's revenue proposals would increase tax receipts by $3 billion in 1992 but reduce them by $4 billion in 1993 and growing amounts thereafter. This pattern mainly reflects the effect of the Administration's proposal to exclude up to 30 percent of capital gains from taxation. Other major revenue proposals include:

- Creating tax-favored family savings accounts, which the Administration views as a spur to personal saving;

TABLE I-6. THE ADMINISTRATION'S PAY-AS-YOU-GO PROPOSALS (By fiscal year, in billions of dollars)

	1992	1993	1994	1995	1996
Spending					
PMA debt restructuring	0	-0.4	-0.4	-0.4	-0.4
Guaranteed student loans	-1.0	a	a	a	0
Medicare	-2.6	-3.8	-4.8	-5.6	-6.0
Veterans benefits	-1.3	-0.6	-0.7	-0.7	-0.6
Military retirement accruals	0	0	3.1	2.8	2.5
Other	-1.0	-1.1	-1.5	-1.6	-1.8
Subtotal	-5.9	-6.0	-4.3	-5.5	-6.3
Revenues[b]					
Extend expiring income tax provisions	1.3	1.9	1.8	2.0	2.2
Exclude 30 percent of capital gains[c]	-3.7	3.2	4.4	4.1	3.4
Establish family savings accounts	0.4	0.6	1.0	1.4	1.8
Extend Medicare taxes to all state and local government employees	-1.1	-1.5	-1.5	-1.5	-1.5
Other	0.2	0.3	0.4	0.6	3.3
Subtotal	-3.0	4.4	6.0	6.6	9.2
CBO Estimate of Pay-As-You-Go Proposals	-8.9	-1.5	1.7	1.1	2.9
Administration Estimate of Pay-As-You-Go Proposals	-9.0	-9.8	-8.1	-9.9	-6.5
Differences					
CBO reestimates	-1.0	6.6	7.0	7.4	7.2
Classification differences	1.1	1.6	2.8	3.7	2.2
Total	0.1	8.2	9.8	11.0	9.4

SOURCES: Congressional Budget Office; Joint Committee on Taxation; and Office of Management and Budget.

a. Less than $50 million.

b. Revenue increases are shown with a negative sign because they reduce the deficit.

c. Increases revenues by $0.8 billion in 1991.

- Extending permanently the income tax credit for research and experimentation expenses, which is scheduled to expire at the end of 1991, and extending other expiring tax preferences for one year;

- Requiring all employees of state and local governments to pay Medicare's Hospital Insurance tax; and

- Extending gasoline and and other motor fuel excises after their expiration in 1995, but at the rate which prevailed before last year's increase of 5 cents per gallon.

Other Mandatory Spending Proposals

CBO estimates that the proposed leasing of NPR and ANWR oil exploration rights and the sale of the Alaska Power Marketing Administration would together yield $1 billion in 1992, $2 billion in 1994, and $1 billion in 1996. These asset sales are excluded from the pay-as-you-go calculation. The budget also proposes small changes affecting Social Security and the Postal Service, which also fall outside the pay-as-you-go regime.

Chapter II of this report compares CBO's economic assumptions with those of the Administration. Chapter III describes the Administration's tax proposals and CBO's revenue estimates in more detail. The Administration's proposals for defense and international affairs are covered in Chapter IV. Chapter V, which is organized by budget function, discusses the Administration's domestic spending proposals, both discretionary and pay-as-you-go.

CHAPTER II

COMPARISON OF ECONOMIC FORECASTS

The Administration's economic forecast is quite similar to that of the Congressional Budget Office over the short term, but it is more optimistic over the medium term. The Administration's outlook for economic growth is slightly lower than CBO's for 1991, but it is higher over the next four years, so that by 1996 the Administration's estimate of real gross national product (GNP) exceeds CBO's by 1.1 percent. Similarly, the Administration forecasts slightly higher inflation than CBO in the short term and slightly lower inflation by the end of the projection period. The Administration's outlook for interest rates is more optimistic than CBO's for both the short and the medium term.

The differences in economic forecasts help explain the difference between CBO's and the Administration's projections of the deficit. In 1991, for example, the Administration's deficit projection is $10 billion higher than CBO's projection, with $9 billion of the difference resulting from less optimistic economic forecasts. By 1996, however, the Administration's projection of the deficit is $76 billion lower than CBO's, with $54 billion of the difference resulting from its more optimistic economic forecast. This chapter compares the two economic forecasts and discusses their budgetary implications.

SHORT-TERM OUTLOOKS

Both CBO's and the Administration's forecasts embody a mild recession in 1990 and early 1991 and a moderate recovery that begins by mid-1991. The Administration's outlook for growth in real gross national product is 0.4 percentage points lower than CBO's for 1991 (on a fourth-quarter-over-fourth-quarter basis) and 0.2 percentage points

higher in 1992 (see Table II-1). Not only are the forecasts close to one another, but both are similar to the consensus of private forecasters recently surveyed by the *Blue Chip Economic Indicators*.[1]

One unusual feature of the short-term forecasts is that the Administration expects weaker economic growth than does CBO--a situation that never occurred during the Gramm-Rudman-Hollings era. Each of the six budgets released by the Office of Management and Budget (OMB) between 1985 and 1990 assumed stronger economic growth than the corresponding CBO forecast. OMB's less optimistic assumption for growth in the current forecast is a by-product of the Omnibus Budget Reconciliation Act of 1990, which amended the 1985 Gramm-Rudman-Hollings law to do away with fixed deficit targets. Under the new regime, the deficit targets are adjusted to reflect changes in the economic outlook. An optimistic economic forecast, therefore, no longer helps the Administration reach the deficit targets.

Little difference also exists between CBO's and the Administration's short-term forecasts of inflation, whether these are measured using the consumer price index or the GNP deflator. The inflation rates forecast by both the Administration and CBO are close to the *Blue Chip* consensus. Only interest rates differ significantly in the forecasts over the short term. For three-month Treasury bills, the Administration forecasts rates that average 0.6 percentage points lower than what CBO forecasts over the 1991-1992 period; for 10-year Treasury notes, the Administration forecasts rates that average 0.5 percentage points lower than CBO's. In addition, the Administration differs from CBO and the *Blue Chip* consensus, as well as from historical experience, by forecasting short-term interest rates that decline during an economic recovery.

The overall similarity between the Administration's and CBO's forecasts for the next two years is not surprising because both agree on the factors that brought on the current recession and those that are likely to determine its course. Several factors were responsible for the

1. Eggert Economic Enterprises, Inc., *Blue Chip Economic Indicators* (February 10, 1991).

TABLE II-1. COMPARISON OF CBO, ADMINISTRATION, AND *BLUE CHIP* SHORT-RUN ECONOMIC FORECASTS (By calendar year)

	Actual 1989	Estimated 1990	Forecast 1991	Forecast 1992
Fourth Quarter to Fourth Quarter (Percentage change)				
Real Gross National Product				
CBO	1.8	0.2	1.3	3.4
Administration	1.8	0	0.9	3.6
Blue Chip	1.8	0.3	0.9	2.8
Implicit GNP Deflator				
CBO	3.7	4.4	4.1	3.6
Administration	3.7	4.5	4.3	3.8
Blue Chip	3.7	4.0	3.8	3.6
Consumer Price Index[a]				
CBO	4.6	6.1	4.0	3.5
Administration	4.5	6.3	4.3	3.9
Blue Chip	4.6	6.3	3.8	4.1
Calendar-Year Average (Percent)				
Civilian Unemployment Rate[b]				
CBO	5.3	5.5	6.8	6.4
Administration	5.2	5.4	6.7	6.6
Blue Chip	5.3	5.5	6.5	6.3
Three-Month Treasury Bill Rate				
CBO	8.1	7.5	6.6	7.0
Administration	8.1	7.5	6.4	6.0
Blue Chip	8.1	7.5	6.0	6.3
Ten-Year Government Note Rate				
CBO	8.5	8.6	7.9	7.7
Administration	8.5	8.5	7.5	7.2
Blue Chip[c]	8.5	8.5	7.8	8.0
Spread Between Ten-Year Government Note Rate and Three-Month Treasury Bill Rate				
CBO	0.4	1.0	1.2	0.7
Administration	0.4	1.0	1.1	1.2
Blue Chip	0.4	1.0	1.8	1.7

SOURCES: Congressional Budget Office; Office of Management and Budget; Eggert Economic Enterprises, Inc., *Blue Chip Economic Indicators* (February 10, 1991).

NOTE: The CBO forecast is based on data available through December 1990 and does not reflect the fourth-quarter data for GNP or CPI published in January 1991. The *Blue Chip* forecast is an average of 50 private forecasters.

a. Represents the consumer price index for all urban consumers (CPI-U) for CBO and the *Blue Chip* and the consumer price index for urban wage earners and clerical workers (CPI-W) for the Administration.

b. The Administration's projection is for the total labor force, including armed forces residing in the United States, while the CBO projection is for the civilian labor force excluding armed forces. In recent years, the unemployment rate for the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian labor force alone.

c. The *Blue Chip* does not project a 10-year note rate. The values shown here are based on the *Blue Chip* projection of the Aaa bond rate, adjusted by CBO to reflect the estimated spread between Aaa bonds and 10-year government notes.

d. Inflation-adjusted interest rates are nominal rates less the fourth-quarter-to-fourth-quarter percentage change in the CPI-U.

economic downturn. First, the Federal Reserve, concerned about inflationary pressures, held interest rates at relatively high levels during 1989 and early 1990. Second, problems in the financial sector, largely a reaction to the savings and loan crisis and problems in the banking sector, somewhat reduced the availability of credit. Finally, Iraq's invasion of Kuwait, with its negative impact on real incomes, interest rates, and consumer confidence, was the final precipitating factor for the recession.

There are four reasons why both the Administration and CBO forecast a recession that, by historical standards, is anticipated to be mild in depth and duration. First, the current recession is not expected to be marked by a strong inventory cycle. In past recessions, an early slowing of sales was matched by a sharp increase in business inventories; these inventories had to be worked off later through lower production. Because inventories are currently at low levels, relative to sales, firms are not expected to slash production in order to draw down bloated stocks of inventories, as was required in previous recessions.

Second, CBO and the Administration expect this recession to be milder than average because of the relatively low and stable underlying rate of inflation that existed in the second half of 1990. This situation, resulting from a restrained monetary policy that was followed from early 1987 through mid-1990, has allowed the Federal Reserve more flexibility than was the case in recent recessions to pursue a gradual easing in its monetary policy as the current recession developed. The lower interest rates that have resulted from this policy should play an important role in initiating the recovery from the recession. After the recovery is under way, CBO, but not the Administration, expects the Federal Reserve to allow short-term interest rates to rise as the economy recovers--a pattern consistent with recoveries from past recessions.

Third, a mild recession is expected because of the continued growth in real exports, a key difference from previous recessions. Strong growth in exports during the late 1980s raised their share of GNP to its highest level in the postwar period. Growth in exports is expected to continue, bolstered by the dollar's recent decline and modest growth in the economies of most U.S. trading partners.

Finally, the Administration and CBO downplay any lasting effects from the recent surge in oil prices. Both note that the recent run up in prices was smaller in real terms than the oil shocks of the 1970s and that the world's economies are better prepared to weather the current oil shock. These economies have improved their energy conservation; their industries are better able to substitute other fuels for oil when necessary; they have stocked strategic oil reserves; and they have largely eliminated oil price controls, which often discouraged production.

MEDIUM-TERM PROJECTIONS

Neither CBO nor the Administration attempts to forecast cyclical fluctuations beyond 1992. Instead, their projections are based on extrapolating trends in fundamental economic variables. The growth paths of variables such as output, inflation, and interest rates are projected based on the gap between their values at the end of 1992 and their long-run or potential values implied by projections of fundamental economic conditions.

In general, the Administration's medium-term projections appear optimistic relative to both the projections of CBO and the *Blue Chip* consensus of private forecasters (see Table II-2 and Figure II-1):

- The Administration's projection of real GNP growth averages 0.5 percentage points higher than the CBO projection and 0.6 percentage points above the *Blue Chip* consensus over the 1993-1996 period.

- The Administration projects that inflation (measured using the implicit GNP deflator) will decline slightly over the medium term, reaching a rate 0.2 percentage points below the CBO projection and 0.5 percentage points below the *Blue Chip* consensus by 1996.

- Interest rates are also substantially lower in the Administration's medium-term projection, regardless of whether 3-month Treasury bills or 10-year Treasury notes are compared.

TABLE II-2. COMPARISON OF CBO, ADMINISTRATION, AND *BLUE CHIP* ECONOMIC PROJECTIONS, CALENDAR YEARS 1990-1996

	Estimated	Forecast		Projected			
	1990	1991	1992	1993	1994	1995	1996
Nominal GNP (Billions of dollars)							
CBO	5,468	5,700	6,107	6,505	6,919	7,358	7,824
Administration	5,465	5,689	6,095	6,536	6,990	7,451	7,931
Real GNP (Percentage change, year over year)							
CBO	0.9	0	3.3	2.9	2.8	2.7	2.7
Administration	0.8	-0.3	3.1	3.5	3.3	3.1	3.0
Blue Chip	0.9	0.1	2.5	2.7	2.7	2.5	2.6
Consumer Price Index[a] (Percentage change, year over year)							
CBO	5.4	4.9	3.5	3.6	3.6	3.6	3.6
Administration	5.3	5.2	4.0	3.7	3.5	3.4	3.3
Blue Chip	5.4	4.6	4.0	4.3	4.2	4.1	4.0
GNP Deflator (Percentage change, year over year)							
CBO	4.2	4.3	3.7	3.5	3.5	3.5	3.5
Administration	4.2	4.4	3.9	3.6	3.5	3.4	3.3
Blue Chip	4.1	3.7	3.6	4.0	4.0	3.9	3.8

(Continued)

SOURCES: Congressional Budget Office; Office of Management and Budget; and Eggert Economic Enterprises, Inc., *Blue Chip Economic Indicators*.

NOTE: The CBO forecast is based on data available through December 1990 and does not reflect fourth-quarter data for GNP or CPI published in January 1991. The *Blue Chip* forecasts through 1992 are based on a survey of 50 private forecasters, published on February 10, 1991. The *Blue Chip* projections from 1993 through 1996 are based on a survey of 41 forecasters, published on October 10, 1990.

a. Consumer price index for all urban consumers (CPI-U) for CBO and the *Blue Chip*; consumer price index for urban wage earners and clerical workers (CPI-W) for the Administration.

The Outlook for Economic Growth

CBO's projection of potential GNP is computed using a growth model that combines projections of the growth rates of the capital stock, the

TABLE II-2. Continued

	Estimated	Forecast		Projected			
	1990	1991	1992	1993	1994	1995	1996
Unemployment Rate[b]							
CBO	5.5	6.8	6.4	6.2	6.0	5.8	5.6
Administration	5.4	6.7	6.6	6.2	5.8	5.4	5.1
Blue Chip	5.5	6.5	6.3	5.7	5.5	5.4	5.3
Three-Month Treasury Bill Rate (Percent)							
CBO	7.5	6.6	7.0	6.7	6.3	5.9	5.7
Administration	7.5	6.4	6.0	5.8	5.6	5.4	5.3
Blue Chip	7.5	6.0	6.3	6.9	6.9	6.8	6.7
Ten-Year Government Note Rate (Percent)[c]							
CBO	8.6	7.9	7.7	7.6	7.4	7.3	7.2
Administration	8.5	7.5	7.2	6.8	6.6	6.4	6.3
Blue Chip	8.5	7.8	8.0	8.1	7.9	7.8	7.7
Income (Billions of dollars)							
Wage and salary disbursements							
CBO	2,703	2,815	3,014	3,219	3,433	3,661	3,897
Administration	2,700	2,802	3,006	3,235	3,467	3,703	3,950
Other personal income[d]							
CBO	1,940	2,050	2,185	2,324	2,468	2,617	2,774
Administration	1,944	2,054	2,176	2,289	2,420	2,556	2,705
Corporate profits[e]							
CBO	312	323	361	365	365	372	383
Administration	300	294	335	379	419	447	484

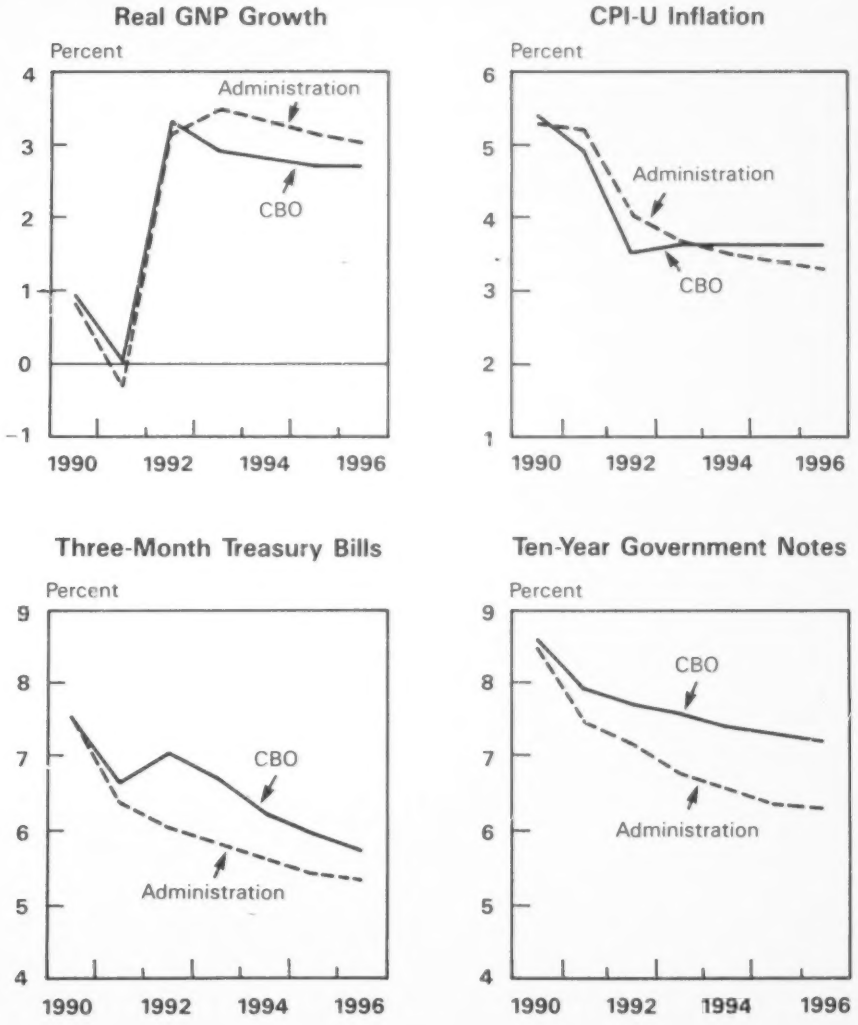
b. The Administration's projection is for the total labor force, including armed forces residing in the United States, while the CBO projection is for the civilian labor force excluding armed forces. In recent years, the unemployment rate for the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian labor force alone.

c. *Blue Chip* does not project a 10-year note rate. The values shown here are based on the *Blue Chip* projection of the Aaa bond rate, adjusted by CBO to reflect the estimated spread between Aaa bonds and 10-year government notes.

d. Personal income less wage and salary disbursements.

e. Corporate profits reported are book, not economic, profits.

Figure II-1.
Comparison of CBO and Administration Economic Assumptions



SOURCE: Congressional budget Office; Office of Management and Budget.
NOTE: CPI-U = consumer price index for all urban consumers.

labor force, and a measure of productivity that reflects the contribution of both capital and labor--total factor productivity. Total factor productivity is a more basic measure of productivity than the more familiar labor productivity measure and is defined as the growth in output above the growth in the capital and labor inputs. Growth in total factor productivity is typically attributed to technological progress.

The CBO model's projection of the capital stock depends on the rate of national saving (plus overseas borrowing), which determines the rate at which firms invest in plant and equipment. Growth in the labor force and total factor productivity are projected independently of the model: the labor force using projections of the Bureau of Labor Statistics, and total factor productivity based on recent historical experience.

CBO's projection for growth in the capital stock reflects both the temporary reduction in national saving as a result of the recession and the increased national saving over the medium term as a result of the deficit reduction measures enacted in the reconciliation act. The net effect is a projected rate of capital accumulation that is near its average for the 1980s, beginning somewhat below and ending somewhat above that average. Growth in the labor force, the largest factor determining output growth in the model, is assumed to average 1.3 percent over the 1993-1996 period, following mid-range projections of the Bureau of Labor Statistics. Total factor productivity is projected to continue growing at its rate in the 1980s--0.9 percentage points, a rate that is also close to its average since the early 1960s.

The Administration's projection for real GNP over the 1993-1996 period appears to be based on projected growth of the labor force and labor productivity, as well as on the gap between actual and potential output. Because the Administration has a more optimistic view of the growth of potential GNP, its medium-term projection for actual GNP growth exceeds that of CBO. The Administration's assumption for growth in the labor force is identical to CBO's, averaging 1.3 percent per year over the 1993-1996 period. In contrast, the Administration's projection for labor productivity is well above CBO's projection and above recent trends, averaging 1.9 percent over the 1993-1996 period (see Table II-3).

Comparing Productivity Projections

The difference in assumptions about labor productivity accounts for virtually all of the difference between CBO's and the Administration's projections of economic growth. The Administration's projected growth rate of labor productivity is roughly consistent with the average rate during the postwar period, but is well above recent experience. While the Administration defends this projection as being contingent upon adopting the President's entire domestic agenda, the fact remains that the Administration is assuming productivity growth that has not been sustained in this country since the early 1970s.

CBO's projection for growth in labor productivity is a function of the assumed growth in total factor productivity and of the amount of

TABLE II-3. GROWTH IN LABOR PRODUCTIVITY IN THE NONFARM BUSINESS SECTOR (In percent)

Period	Average Annual Growth Rate
Actual Growth	
1948:IV through 1990:III	1.8
1960:II through 1990:III	1.5
1981:III through 1990:III	1.0
Projected Growth: 1993-1996	
CBO	1.4
Administration	1.9

SOURCES: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

NOTE: 1948:IV, 1960:II, and 1981:III are cyclical peaks, as measured by the National Bureau of Economic Research.

capital available per worker. Even though total factor productivity is assumed to continue growing at roughly its average rate in the 1980s, labor productivity grows somewhat faster than in recent years because growth of the labor force slows, while capital accumulation continues at recent trends. The resulting growth in capital per worker is expected to spur labor productivity. CBO's model suggests that the higher rates of growth that the Administration has assumed for labor productivity are unlikely to be realized without substantially higher rates of national saving (through its influence on capital accumulation) or much faster technological progress. Given recent experience with both of these factors, CBO concludes that there is little reason to expect changes in the growth of labor productivity beyond those in the CBO projections.

The Outlook for Inflation and Interest Rates

The Administration is slightly more optimistic than CBO about the prospects for inflation in the medium term. Both CBO and the Administration expect the current recession to reduce inflation substantially, and both are more optimistic on this score than the current consensus of private forecasters. But the Administration, unlike CBO, projects further small declines in inflation between 1993 and 1996, after the economy has fully recovered from the recession. As a result, while CBO's projections for inflation remain around 3.6 percent, down about one percentage point from its average during the second half of the 1980s, the Administration's projection falls further to 3.3 percent by 1996.

The disparity between the Administration's and CBO's projection of interest rates is much wider than for any other variable. This difference reflects the combination of optimistic assumptions regarding both inflation rates and real interest rates. Comparing the three-month Treasury bill rates over the 1993-1996 period, the Administration's projection averages 0.6 percentage points below CBO's projection and 1.3 percentage points below the *Blue Chip* consensus. The more optimistic assumptions about inflation, described above, and the projection of lower real interest rates, which average 0.5 percentage points below the private consensus over the 1993-1996 period, produce

this disparity between the Administration's and CBO's projected interest rates.

CBO's projections for real interest rates over the 1993-1996 period are based on projected strengths of both the supply of new national saving and the demand for new saving during that period. Purely domestic factors suggest that real interest rates will fall. Private saving is expected to rise gradually (for demographic reasons), while the Budget Enforcement Act should lower federal demands for funds. However, the CBO projection also takes into account the increased demand for funds that is expected to come from Europe. Investment needs on that continent, primarily in unified Germany, are likely to draw heavily on the world's supply of funds and to help keep interest rates higher than they would otherwise be. The destruction caused by the war in the Persian Gulf--which was not reflected in CBO's forecast or most likely in the Administration's forecast--will also probably raise world interest rates by small amounts in the early 1990s because of the capital demands associated with reconstruction in Kuwait and perhaps Iraq.

Projections of Nominal Income and Its Components

The differences between the Administration's and CBO's economic assumptions are reflected in their projections of nominal income and its components. Clearly, the level of nominal income is important for deficit projections: higher projections of nominal income imply higher tax receipts. The proportion of nominal income accounted for by each of its components is also important because each type of income is taxed at a different rate. The differences between revenue projections will be discussed in Chapter III.

The difference between the projected levels of nominal income accounts for most of the difference between the Administration's and CBO's projections of the income components. Wage and salary disbursements in the Administration's projection, for example, are $53 billion higher in 1996 than in CBO's projection. Yet the difference is entirely a result of higher levels of nominal income: wage and salary

disbursements account for exactly the same share of nominal income in 1996 in both projections.

The difference between the Administration's and CBO's projections of interest rates, however, does appear to affect the shares of nominal income accounted for by certain income components. The Administration's projected interest rates are lower than CBO's. The lower rates apparently allow corporate profits to grow more quickly than nominal income over the 1990-1996 period, thus raising their share of nominal income over time. Lower interest rates have the opposite effect on personal interest income (a part of "other personal income" in Table II-2), slowing the growth of this component relative to nominal income and reducing its share. CBO projects the share of nominal income made up by corporate profits to decline slightly by 1996, a decline that is in line with the long-term historical trend. CBO projects "other personal income" to remain at a roughly constant share of nominal income through the 1990-1996 period.

IMPLICATIONS OF ECONOMIC FORECASTS FOR DEFICITS

The different economic forecasts used by CBO and the Administration--for example, the differences in forecasts of economic growth, interest rates, and inflation--have pronounced effects on the budget projections (see Table II-4). Economic growth raises nominal incomes (and, thus, tax revenues), while lowering outlays on certain benefit programs (for example, unemployment insurance). Nominal interest rates affect the deficit directly by raising interest costs, while inflation affects outlays through its influence on cost-of-living adjustments for benefit programs.

The estimated deficits over the 1991-1992 period are reduced if CBO's economic assumptions are substituted for those of the Administration. The lower deficit estimate occurs because the decrease that results from CBO's more optimistic forecasts of growth and inflation is larger than the increase that results from substituting CBO's higher interest rates.

TABLE II-4. EFFECTS OF CBO'S ECONOMIC PROJECTIONS ON ESTIMATES OF THE ADMINISTRATION'S BUDGET
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
Revenues[a, b]	-9	-11	-1	18	29	40
Outlays						
Benefit programs[b]	c	-2	-5	-6	-8	-7
Interest costs						
From higher interest rates	1	5	12	14	15	15
From additional debt service	c	-1	-1	c	2	6
Total	c	2	6	8	10	14
Deficit	-9	-8	5	26	39	54

SOURCE: Congressional Budget Office.

a. Revenue losses are shown as positive because they increase the deficit.

b. Includes small reestimates to the Administration's pay-as-you-go proposals because of contrasting economic assumptions.

c. Less than $500 million.

After 1992, however, a more familiar pattern returns. The Administration's forecast of economic growth over the 1993-1996 period is considerably more buoyant than CBO's. As the gap between CBO's and the Administration's projections of GNP and taxable income widens, so does the difference in their revenue projections. When combined with CBO's forecast of higher interest rates, the net effect is a deficit estimate that is $54 billion higher than it would be using the Administration's assumptions.

CHAPTER III

THE ADMINISTRATION'S REVENUE PROPOSALS

The President's budget contains little that is new in revenue proposals. Most have been submitted before and have not been accepted by the Congress. The major proposals include reducing the capital gains tax rate, establishing family savings accounts, and expanding Medicare taxes to all state and local government employees. Taken together, the proposals would increase revenues by a small amount in 1992 and then reduce revenues by increasing amounts in 1993 and later years.

CBO estimates that total revenues under the Administration's budget proposals would rise from $1,094 billion in 1991 to $1,172 billion in 1992 and $1,486 billion in 1996. The CBO estimates are slightly higher than the Administration's for 1991 and 1992, but are increasingly below the Administration's in 1993 and later years (see Table III-1). The differences in estimates of the tax proposals are not large. Moreover, the difference in estimates of the budget results mostly from different economic and technical assumptions regarding future tax receipts under current law.

This chapter discusses those proposals that are classified as revenues and referred to as governmental receipts in the President's budget. In addition, the President's budget includes proposals for fees that are classified as negative outlays. These fees are analyzed in Chapter V, which discusses the President's domestic spending proposals. Three of these fee proposals are similar to proposals included in last year's budget as revenue (or governmental receipt) proposals: the Securities and Exchange Commission registration fee increase, the Commodity Futures Trading Commission transaction fee, and the Federal Emergency Management Agency fee for regulating the emergency plans of nuclear power plants.

TABLE III-1. ADMINISTRATION AND CBO ESTIMATES OF ADMINISTRATION BUDGET REVENUES, BY MAJOR SOURCE (By fiscal year, in billions of dollars)

Revenue Source	1991	1992	1993	1994	1995	1996
Administration Estimates						
Individual Income Taxes	492.6	529.5	572.0	632.9	688.9	742.1
Corporate Income Taxes	95.9	101.9	109.0	120.6	130.0	138.3
Social Insurance Taxes and Contributions						
On-budget	103.7	114.1	125.1	135.5	144.2	151.3
Off-budget[a]	298.3	315.3	338.7	365.5	389.8	417.2
Excise Taxes	44.8	47.8	50.1	52.0	53.6	47.8
Other	56.2	56.5	57.6	58.9	60.8	64.1
Total Revenues	1,091.4	1,165.0	1,252.7	1,365.3	1,467.3	1,560.7
Percentage of GNP	19.4	19.5	19.5	19.9	20.0	20.0
CBO Estimates						
Individual Income Taxes	489.1	531.3	564.0	605.7	653.0	699.2
Corporate Income Taxes	99.1	102.1	105.6	107.1	107.4	109.0
Social Insurance Taxes and Contributions						
On-budget	104.3	115.2	124.4	132.5	139.9	145.9
Off-budget[a]	299.8	318.8	341.0	365.2	389.7	415.6
Excise Taxes	45.7	49.4	52.7	54.4	56.0	50.7
Other	55.6	55.3	58.5	60.6	62.8	65.7
Total Revenues	1,093.6	1,172.2	1,246.3	1,325.5	1,408.8	1,486.2
Percentage of GNP	19.4	19.5	19.5	19.5	19.4	19.3

SOURCES: Congressional Budget Office; Joint Committee on Taxation; and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1992* (January 1991).

a. Off-budget revenues consist of Old-Age, Survivors, and Disability Insurance (OASDI) tax revenues.

PAY-AS-YOU-GO REVENUE PROPOSALS

The revenue effects of tax legislation are tallied on the pay-as-you-go scorecard with the outlay effects of direct spending legislation. Among proposed tax legislation this year, the Administration repeats proposals made last year to extend certain expiring income tax preferences. The targeted jobs credit and the business energy credit have been added to the list of extensions. The President's fiscal year 1991 proposals for savings and investment incentives, most notably a 30 percent exclusion for capital gains and new family savings accounts, are also repeated. This year the President proposes to extend Highway Trust Fund taxes beyond their expiration date in 1995 at rates below those in current law. The proposed requirement that all state and local government employees contribute to the Medicare Hospital Insurance Trust Fund is again the only major revenue-raising proposal.

CBO estimates that the President's proposed tax legislation would add $3.0 billion to revenues in 1992 under the pay-as-you-go regime (see Table III-2).[1] This is $0.3 billion higher than the Administration's estimate because CBO and the Joint Committee on Taxation (JCT) project a greater short-term revenue gain from the proposed capital gains exclusion. CBO estimates that the proposals would reduce revenues by $4.4 billion in 1993 and $9.2 billion in 1996. The Administration estimates that the proposals would boost revenues by $0.4 billion in 1993 and then reduce them by $0.9 billion in 1994 and $4.5 billion in 1996. For the most part, the 1993-1996 differences result from the different estimates of the capital gains proposal.

Extensions of Expiring Income Tax Provisions

The Administration's revenue proposals include making the research and experimentation credit permanent. The Administration also proposes one-year extensions for the research and experimentation allocation rules, the deduction for health insurance expenses for the self-employed, the low-income housing credit, the targeted jobs credit, and

1. CBO has reestimated the Administration's payroll tax and fee proposals and the Internal Revenue Service initiative. The Joint Committee on Taxation has reestimated the income and excise tax proposals.

the business energy credits for solar and geothermal energy-related investments. The proposed extensions of the targeted jobs and business energy credit proposals are new departures for the Administration. Both credits were not proposed for extension in the fiscal year 1990 or fiscal year 1991 budgets, although both were scheduled to expire within the year.

Research and Experimentation Credit. The Administration proposes to make the income tax credit for research and experimentation (R&E)

TABLE III-2. CBO ESTIMATES OF REVENUE PROPOSALS IN THE ADMINISTRATION'S 1992 BUDGET
(By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
CBO Baseline Revenues	1,169.2	1,250.7	1,331.5	1,415.4	1,495.4
Pay-As-You-Go Proposals					
Extend expiring income tax provisions	-1.3	-1.9	-1.8	-2.0	-2.2
Savings and investment incentive proposals[a]	3.2	-4.0	-5.5	-5.6	-5.3
Require Medicare contributions from all state and local government employees[b]	1.1	1.5	1.5	1.5	1.5
Extend and lower Highway Trust Fund taxes[b]	0.0	0.0	0.0	0.0	-2.8
Other proposals	c	-0.1	-0.3	-0.5	-0.5
Subtotal, Pay-As-You-Go	3.0	-4.4	-6.0	-6.6	-9.2
IRS Enforcement Funding Proposal	0.0	0.0	0.0	0.0	0.0
Total, Revenue Proposals	3.0	-4.4	-6.0	-6.6	-9.2
President's Budget Revenues as Estimated by CBO	1,172.2	1,246.3	1,325.5	1,408.8	1,486.2

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

a. The proposed capital gains exclusion increases revenue by $0.8 billion in 1991.

b. Net of income tax offsets.

c. Revenue decrease of less than $50 million.

expenses permanent; it is currently scheduled to expire for expenses paid after December 31, 1991. The credit allows businesses to reduce their tax liability by 20 percent of the amount by which current R&E expenditures exceed a base amount computed with reference to the taxpayer's historical R&E expenses. Qualifying R&E expenses include in-house wages and costs of supplies used in research, a portion of contract research costs undertaken by others and paid by the taxpayer, and certain computer costs. The Economic Recovery Tax Act of 1981 enacted the R&E credit as a temporary four-year credit, and it has been modified and extended four times since then. JCT estimates that permanently extending the credit would reduce revenues by $0.5 billion in 1992 and by $1 billion to $2 billion per year through 1996 (see Table III-3).

Research and Experimentation Allocation Rules. Spending on research and experimentation eligible for the credit can also be deducted from current income. Companies that conduct operations both in the United States and abroad must allocate their income and expenses to their different operations. Expenses allocated to foreign operations, if sufficient, prevent companies from claiming foreign tax credits against their U.S. tax liability. Therefore, companies have an incentive to increase their income from foreign sources by allocating as many expenses as possible to their operations in the United States.

Current tax law provides that the minimum fraction of domestic R&E expenses deductible from domestic income is 64 percent, but the percentage is scheduled to fall to 30 percent in 1992. The Administration proposes to extend the 64 percent rule for one more year. Extending the rules would allow more foreign tax credits to be claimed. JCT estimates retaining the rules for one year would reduce corporate tax receipts by close to $400 million in 1992 and $300 million in 1993. This loss is slightly larger than what the Administration estimated because it incorporates a greater use of foreign tax credits.

Partial Deduction for Health Insurance Premiums for Self-Employed. The Administration proposes to extend for one year the provision that allows self-employed persons a deduction equal to 25 percent of the cost of providing health insurance for themselves and their families. The Tax Reform Act of 1986 enacted the provision, now scheduled to expire

at the end of 1991, and it has been extended twice--most recently in the Omnibus Budget Reconciliation Act of 1990 (the reconciliation act). In last year's budget, the Administration proposed to make the deduction permanent.

TABLE III-3. CBO/JCT AND ADMINISTRATION ESTIMATES OF PROPOSED EXTENSIONS OF EXPIRING INCOME TAX PROVISIONS (By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
Permanent Extension					
Research and Experimentation (R&E) Tax Credit					
CBO/JCT	-0.5	-1.0	-1.3	-1.6	-1.8
Administration	-0.5	-1.0	-1.3	-1.6	-1.8
One-Year Extensions					
R&E Allocation Rules					
CBO/JCT	-0.4	-0.3	0.0	0.0	0.0
Administration	-0.3	-0.3	0.0	0.0	0.0
Partial Deduction for Health Insurance Premiums for the Self-Employed					
CBO/JCT	-0.3	-0.1	0.0	0.0	0.0
Administration	-0.1	-0.2	0.0	0.0	0.0
Low-Income Housing Credit					
CBO/JCT	-0.1	-0.3	-0.4	-0.4	-0.4
Administration	-0.1	-0.2	-0.3	-0.3	-0.3
Targeted Jobs Credit					
CBO/JCT	-0.1	-0.1	-0.1	a	a
Administration	-0.1	-0.1	-0.1	a	a
Business Energy Credits					
CBO/JCT	a	a	0.0	0.0	0.0
Administration	a	a	b	b	b
Total					
All Extensions					
CBO/JCT	-1.3	-1.9	-1.8	-2.0	-2.2
Administration	-1.1	-1.8	-1.7	-2.0	-2.2

SOURCES: Joint Committee on Taxation; Office of Management and Budget.

a. Revenue decrease of less than $50 million.
b. Revenue increase of less than $50 million.

The provision was designed to reduce the disparity between the treatment of self-employed individuals and other employed individuals. Corporations and noncorporate employers can deduct the cost of providing health insurance to their employees when calculating their business income tax liability, and the employees do not owe taxes on the value of the insurance. Noncorporate employers and self-employed individuals, however, cannot deduct the cost of their own insurance as a business expense. Last year's budget included a proposal to make the deduction permanent. JCT estimates that the extension would reduce revenues by close to $400 million during 1992 and 1993. The Administration assumes a different time pattern of revenue effects.

Low-Income Housing Credit. The Administration proposes to extend for one year the credit for certain expenditures made by owners of low-income housing projects. Eligible expenditures include depreciable costs of new construction and renovation, as well as the costs of acquiring certain old buildings. The Tax Reform Act of 1986 created the credit, and it has since been extended twice. The reconciliation act carried out the 1991 budget proposal by extending the credit for one year through December 31, 1991 and restoring full benefits for 1990. The current proposal would extend the credit for one year through December 31, 1992. The revenue loss, however, would extend beyond the budget period because the credit is claimed over 10 years. JCT estimates the revenue loss at almost $100 million in 1992 and close to $400 million per year beginning in 1994. The Administration assumes slightly lower use of the credit and, therefore, a smaller revenue loss.

Targeted Jobs Credit. The President proposes to extend for one year the targeted jobs tax credit for certain wage payments made by employers to workers who are certified as members of one of nine targeted groups. Economically disadvantaged youth age 18 through 22 are the largest group of workers to receive this special treatment. Other groups include recipients of means-tested transfer programs, economically disadvantaged summer youth workers, and the disabled. The credit is available to the employer, and generally equals 40 percent of up to $6,000 of first-year wages, making the maximum credit per employee $2,400. The qualifying wages are limited to the first $3,000 for economically disadvantaged summer youth workers, yielding a maximum credit of $1,200. The credit is not available for any

wages paid beyond the first year of employment. When calculating their business income tax liability, employers must reduce their deduction for wages paid by the amount of the credit.

The credit was first enacted in the Revenue Act of 1978 as a temporary three-year credit. It has since been extended seven times and modified. This year is the first time the Bush Administration has proposed extending it. The credit is currently scheduled to expire for wages paid to employees who begin work after December 31, 1991. JCT estimates that a one-year extension would reduce revenues by less than $100 million in 1992 and a total of about $400 million through 1996. The Administration assumes slightly lower use of the credit and therefore a smaller revenue loss.

Business Energy Credits. For the first time, the Administration proposes to extend business energy tax credits for solar and geothermal properties. The proposed extension is for one year. The Energy Tax Act of 1978 created the credits, and they have since been extended several times. They are currently scheduled to expire after December 31, 1991. The 10 percent tax credit is available for investments in equipment that uses solar or geothermal energy to generate electricity or to heat or cool structures. JCT estimates that extending the credit for one year would reduce revenues by a total of $42 million during 1992 and 1993.

Savings and Investment Incentives

The Administration again offers three tax proposals to increase personal saving and encourage certain investment activity (see Table III-4). The proposals are to exclude a portion of capital gains from taxable income, establish family savings accounts, and to waive the penalty for early withdrawals from IRAs for first-time homebuyers. The efficacy of the proposals in achieving the savings and investment goals is uncertain.

Exclude 30 Percent of Capital Gains. The Administration proposes to allow individuals to exclude from taxable income a percentage of capital gains on qualifying assets. The percentage would increase with the

holding period: 10 percent for assets held one to two years, 20 percent for assets held two to three years, and 30 percent for assets held three years or more. The exclusion would be in addition to the 28 percent cap on the tax rate on capital gains enacted in the reconciliation act.

Thus, the marginal tax rate on capital gains on qualifying assets held for at least three years would be 19.6 percent for taxpayers in the 28 percent and 31 percent tax brackets and 10.5 percent for taxpayers in the 15 percent tax bracket. The exclusion would apply to all capital assets except collectibles (for example, antiques and precious metals). The excluded portion of capital gains would be considered a tax preference under the alternative minimum tax (AMT), which means that taxpayers subject to the AMT would face an effective tax rate on capital gains of 24 percent. Depreciation deductions would be recaptured

TABLE III-4. CBO/JCT AND ADMINISTRATION ESTIMATES OF PROPOSED SAVINGS AND INVESTMENT INCENTIVES
(By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
Exclude 30 Percent of Capital Gains[a]					
CBO/JCT	3.7	-3.2	-4.4	-4.1	-3.4
Administration	3.0	1.7	0.9	1.8	1.7
Establish Family Savings Accounts					
CBO/JCT	-0.4	-0.6	-1.0	-1.4	-1.8
Administration	-0.3	-0.8	-1.3	-1.8	-2.3
Waive the Penalty for Early Withdrawals from IRAs for First-Time Homebuyers					
CBO/JCT	-0.2	-0.1	-0.1	-0.1	-0.1
Administration	-0.1	-0.1	-0.1	-0.1	-0.1
Total					
CBO/JCT	3.2	-4.0	-5.5	-5.6	-5.3
Administration	2.7	0.8	-0.5	-0.1	-0.7

SOURCES: Joint Committee on Taxation; Office of Management and Budget.

NOTE: IRA = individual retirement account.

a. CBO and JCT estimate that this increases revenue by $0.8 billion in 1991; the Administration estimates that this increases revenue by $0.4 billion in 1991.

as ordinary income; in other words, only the excess of the sales price over the original basis would qualify for the exclusion.

The capital gains exclusion would apply to capital gains realized after February 15, 1991. The requirements for two- and three-year holding periods would be phased in over three years. During the balance of 1991, all qualifying assets held for at least one year would be eligible for the 30 percent exclusion. In 1992, assets held for at least two years would be eligible for the 30 percent exclusion; assets held for at least one year would receive a 20 percent exclusion. The full sliding scale described above would take effect in 1993. The phase-in, by allowing the full 30 percent exclusion for assets held less than three years in 1991 and 1992, would not discourage sales of such assets during the first two years of the budget period and thus would boost short-run receipts.

JCT estimates that the proposal would raise $3.7 billion in revenues in 1992, when taxpayers respond with a burst of asset sales, and thereafter reduce revenues by $3 billion to $4 billion a year (see Table III-4). The Administration estimates that the proposal would raise $3.0 billion in 1992 and thereafter increase revenues by $1 billion to $2 billion a year. The difference results, for the most part, because JCT assumes that taxpayers are less responsive to the changed capital gains tax rate than the Administration assumes.

Establish Family Savings Accounts. The Administration proposes to create a new tax-favored saving vehicle called the family savings account (FSA). Under the proposal, taxpayers would be allowed to make nondeductible contributions of up to $2,500 annually to individual accounts, and the investment income of amounts left on deposit for at least seven years would be tax free. The investment income of amounts left on deposit between three and seven years would be subject to the income tax when withdrawn but would not be subject to a penalty. A 10 percent penalty on investment income would be added for amounts left on deposit less than three years. The proposal would be effective starting January 1, 1991.

Eligibility to contribute to FSAs would be limited to people with adjusted gross income below certain levels--$60,000 for single

taxpayers, $100,000 for heads of households, and $120,000 for couples filing joint returns. As with an individual retirement account (IRA), contributions to an FSA could not exceed a person's earnings or the $2,500 contribution limit. Each member of a couple filing jointly, however, could contribute up to $2,500, provided the total contribution did not exceed the couple's combined earnings. For example, a couple in which one spouse worked outside the home earning $30,000 could contribute up to $2,500 to each of two accounts for a total of $5,000. Dependents would be ineligible.

FSAs could be invested in the same financial instruments as IRAs, and contributions could be made to them in addition to any other tax-advantaged saving for which a person qualified, such as an IRA, Keogh plan, employer pension, or 401(k) plan.

JCT estimates that revenues would be reduced by $355 million from FSAs during 1992, and that the annual loss would increase to $1.8 billion in 1996 (see Table III-4). The revenue loss from FSAs would grow after 1996 as people continued to shift otherwise taxable savings into these accounts. If people ultimately shifted 10 percent of their taxable savings into FSAs, the annual revenue loss measured in 1991 dollars would reach about $8 billion in the long run. The Administration estimates a higher revenue loss over the 1992-1996 period based on the assumption of greater shifting from taxable accounts.

Waive the Penalty for Early Withdrawals from IRAs for First-Time Homebuyers. The Administration proposes to waive the 10 percent penalty for premature IRA withdrawals used by taxpayers who purchase homes for the first time. The waiver would apply to early withdrawals after December 31, 1990. These withdrawals would be subject to regular income taxation, as are IRA withdrawals after age 59½ under current law. Withdrawals for a first home purchase would be limited to $10,000, and the home could cost no more than 110 percent of the median home price in its area.

The full benefit of the proposal would be limited to relatively few individuals: first-time homebuyers who qualify for deductible IRAs. Only 6 percent of all taxpayers contributed to deductible IRAs in 1988,

the most recent year for which data are available. First-time buyers saving through nondeductible contributions would benefit only from a relatively short deferral of taxation rather than the tax-free return offered by deductible IRAs. Use of IRAs by first-time buyers would also be limited by people's uncertainty at the time they are saving for a home as to whether they will ultimately decide not to buy a home or to buy a home costing more than 110 percent of their area's median price.

JCT estimates the revenue loss from this proposal at $180 million in 1992, falling to about $57 million in 1996 (see Table III-4). The revenue loss occurs because some people saving to buy a home are assumed to use IRAs instead of taxable accounts. The loss decreases over the budget period because the loss from not taxing IRA contributions or accruing interest is partially offset in later years by taxes paid on withdrawals. The Administration estimates that the losses would be smaller, based on the assumption that fewer new contributions would be diverted from otherwise taxable savings.

Efficacy of Proposed Incentives for Saving and Investment. The effects of these proposals on national saving and economic growth are uncertain. Each proposal raises the return to private saving, but private saving has not been found to respond much to changes in the rate of return. Additional incentives for capital gains and homeownership will not necessarily allocate investment more effectively for economic growth. Furthermore, CBO and JCT estimate that the capital gains exclusion would add to the deficit, and increases in the deficit directly reduce national saving.

The proposed capital gains exclusion would encourage savers to favor investments whose payoff is deferred. Such investments typically include riskier investments, new ventures, corporate investment through retained earnings, and some tax shelters. Appreciating assets currently benefit from tax provisions that allow taxation to be deferred until the assets are sold and that exempt from tax capital gains held until the death of the owner. The success of a capital gains exclusion in

encouraging more productive investment, increasing saving, or raising revenue is controversial.[2]

FSAs are intended to raise private saving. However, their effectiveness would depend on how much taxpayers would increase their total saving (inside and outside of tax-favored accounts) through using an FSA. The generous contribution limits combined with excluding high-income taxpayers means that many of the contributors to FSAs would face an incentive to save more. However, studies of saving behavior generally have not found that people save significantly more in response to higher after-tax returns. Any increase in private saving in response to FSAs would add to national saving if tax increases or direct spending reductions were enacted to offset the resulting revenue loss, provided that these other changes themselves did not discourage saving.

Finally, waiving the penalty for IRA withdrawals to pay for the first purchase of a home would provide another incentive for investment in homeownership rather than other types of assets. Diverting savings from business investment into owner-occupied housing, however, is likely to have a small cost in terms of economic growth in light of the substantial tax incentives that already exist for homeownership.

Require Medicare Contributions from All State and Local Government Employees

Under current law, all employees of state and local governments hired after March 31, 1986, are required to pay Medicare's Hospital Insurance (HI) taxes. For the fifth year, the President's budget proposes to extend this requirement to all state and local government workers. The majority of the currently exempt workers already qualify for

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2. The controversial impacts of capital gains tax reductions are addressed in Department of the Treasury, *General Explanations of the President's Budget Proposals Affecting Receipts* (February 1991), pp. 1-10; Congressional Budget Office, "Effects of Lower Capital Gains Taxes on Economic Growth" (August 1990); Congressional Budget Office, *Indexing Capital Gains for Inflation* (August 1990); Joint Committee on Taxation, *Explanation of Methodology Used to Estimate Proposals Affecting the Taxation of Income from Capital Gains* (March 27, 1990); Statement of Kenneth W. Gideon, Assistant Secretary of the Department of the Treasury, before the Committee on Finance, United States Senate, March 6, 1990.

Medicare benefits because they have contributed to the system at other jobs or because their spouses are covered through their own employment. Although more than 90 percent of state and local government workers receive Medicare benefits in retirement, only 75 percent of them have paid Medicare taxes while employed in government jobs. Therefore, they receive Medicare benefits in return for a smaller amount of lifetime payroll taxes than paid by employees who work continuously in covered employment.

CBO estimates that mandatory HI contributions from state and local government workers beginning January 1, 1992, would raise $1.1 billion in 1992 and $1.5 billion per year over the 1993-1996 period. Outlays for benefit payments would increase somewhat, but only about $50 million of the increased costs would occur by 1996 (see Table III-5).

Extend and Lower Highway Trust Fund Taxes

Despite the Administration's proposal of other measures to help reduce U.S. dependence on imported oil, including extending the business energy tax credits, the budget proposes that motor fuel excise taxes be extended after they expire in 1995 at rates 5 cents per gallon below

TABLE III-5. CBO/JCT AND ADMINISTRATION ESTIMATES OF PROPOSED MEDICARE COVERAGE EXTENSION
(By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
Require Medicare Contributions from All State and Local Government Employees[a]					
CBO/JCT	1.1	1.5	1.5	1.5	1.5
Administration	1.1	1.5	1.5	1.5	1.5

SOURCES: Congressional Budget Office; Office of Management and Budget.

a. Net of income tax offsets. Benefit increases, estimated at approximately $50 million over the 1992-1996 period, are not included in the revenue estimates.

rates under current law. The Administration proposes to extend the gasoline tax at 9 cents per gallon instead of the current rate of 14 cents and the diesel tax at 15 cents per gallon instead of the current rate of 20 cents.

The proposal would, in effect, rescind the increase in the motor fuel tax enacted in the reconciliation act beginning in 1996. The act increased gasoline and diesel tax rates by 5 cents per gallon and extended the taxes from September 30, 1993, to September 30, 1995. Revenue from half of the 5-cents-per-gallon tax increase and the revenue raised under prior-law rates go in the Highway Trust Fund. Revenue raised from the other half of the rate increase, known as the deficit reduction rate, remains in the general fund.

Under Budget Enforcement Act guidelines, both the CBO baseline and the Administration current services estimate extend beyond the scheduled expiration date--through 1996--the taxes that finance the Highway Trust Fund but not the 2.5-cents-per-gallon deficit reduction tax. JCT estimates that, relative to CBO baseline revenues, the Administration's proposal to extend motor fuel excise taxes at the lower prereconciliation act rates would reduce 1996 Highway Trust Fund revenues by $3.4 billion and overall revenues by $2.8 billion (see Table III-6). The Administration's slightly lower estimate results from lower projected fuel consumption.

TABLE III-6. CBO/JCT AND ADMINISTRATION ESTIMATES OF THE PROPOSED HIGHWAY TAX EXTENSION
(By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
Extend and Lower Highway Trust Fund Taxes[a]					
CBO/JCT	0.0	0.0	0.0	0.0	-2.8
Administration	0.0	0.0	0.0	0.0	-2.7

SOURCES: Joint Committee on Taxation; Office of Management and Budget.

a. Net of income tax offsets.

Other Pay-As-You-Go Proposals

Other pay-as-you-go proposals include enterprise zones and several minor tax and fee initiatives. Taken together, the proposals would reduce revenues slightly.

Establish Enterprise Zones. For the third year, the Administration proposes to establish enterprise zones--geographically designated areas in which tax incentives would be made available to businesses in an effort to boost investment and employment and reverse economic decline. This year's proposal is identical to last year's.

The proposal is to designate up to 50 economically distressed areas as enterprise zones over the next four years. Businesses located in the zones and their employees would be provided the following tax preferences: elimination of the capital gains tax for tangible property used in the zone, a deduction for stock investments in zone corporations with assets of less than $5 million, and a refundable 5 percent credit for low-income employees on their first $10,500 in wages. Several variants of enterprise zone legislation have already been introduced in the 102d Congress. The Administration estimates that the proposal would reduce income tax receipts by $50 million in 1992, about $300 million in 1994, and $750 million in 1996 (see Table III-7). CBO accepts the estimate, recognizing that the revenue effect would depend on the size, location, and other characteristics of the zones actually designated.

Restore and Double Adoption Deduction. The Administration proposes for the third year to restore the deduction for the costs incurred in adopting a child with special needs--for example, a physical or mental handicap--this time effective January 1, 1992. The Tax Reform Act of 1986 repealed the deduction, and it was replaced with a program that reimburses families for these costs up to a limit. The proposal would specify that reimbursement for these adoption costs must be included in income for tax purposes, clarifying the present ambiguity in the law. It would then permit the deduction from income of these costs up to a maximum of $3,000 per child, double the maximum under pre-1986

TABLE III-7. CBO/JCT AND ADMINISTRATION ESTIMATES OF OTHER REVENUE PROPOSALS
(By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
Establish Enterprise Zones					
CBO[a]	-0.1	-0.2	-0.3	-0.5	-0.8
Administration	-0.1	-0.2	-0.3	-0.5	-0.8
Restore and Double Adoption Deduction					
CBO/JCT	0.0	b	b	b	b
Administration	0.0	b	b	b	b
Reinstate Reimbursable Status of Railroad Unemployment Insurance[c]					
CBO/JCT	d	d	d	b	b
Administration	d	d	d	b	b
Improve Retail Compliance with Alcohol Occupational Taxes[c]					
CBO/JCT	d	d	d	d	d
Administration	d	d	d	d	d
Extend Abandoned Mine Reclamation Fees					
CBO/JCT[c]	0.0	0.0	0.0	0.0	0.3
Administration	0.0	0.0	0.0	0.0	0.3
Increase Department of Housing and Urban Development Interstate Land Sales Fee					
CBO/JCT	d	d	d	d	d
Administration	d	d	d	d	d
Total					
CBO	b	-0.1	-0.3	-0.5	-0.5
Administration	b	-0.1	-0.3	-0.5	-0.5

SOURCES: Congressional Budget Office; Joint Committee on Taxation; Office of Management and Budget.

a. CBO accepts the Administration's estimate. The JCT does not, and does not provide an estimate.

b. Revenue decrease of less than $50 million.

c. Net of income tax offsets.

d. Revenue increase of less than $50 million.

Reform law. JCT and the Administration estimate that the proposal would reduce income tax revenues by $3 million per year beginning in 1993.

Reinstate Reimbursable Status of Railroad UI. In 1989 and 1990, commuter railroads and Amtrak were temporarily required to reimburse the Unemployment Insurance (UI) trust fund for the actual unemployment compensation benefits paid to former employees rather than pay the 8 percent UI tax on covered wages. The proposal would reinstate this status retroactively to January 1, 1991, and make it permanent. Both CBO and the Administration estimate that the proposal would increase UI revenues by $2 million in 1992 after reducing them in 1991. Thereafter, it would raise revenues slightly in some years and reduce them in others, depending on unemployment compensation benefits actually paid and the balance in the Railroad Retirement Unemployment Insurance Trust Fund.

Improve Retail Compliance with Alcohol Occupational Taxes. The Administration proposes to require wholesale distributors of alcoholic beverages to ensure that their retail customers have complied with the occupational taxes levied on liquor retailers. The proposal would be effective October 1, 1991. JCT and the Administration estimate that this would increase revenues by $9 million per year and would bring in an additional $68 million in past-due taxes during 1992 and 1993.

Extend Abandoned Mine Reclamation Fees. Abandoned mine reclamation fees were extended for three years in the reconciliation act, and are now scheduled to expire on September 30, 1995. The Administration proposes to extend the fees through 1996. The existing fee schedule would be retained: 35 cents per ton on coal from surface mines and 15 cents per ton on coal from underground mines, or 10 percent of the value of the coal at the mine, whichever is lower. These fees fund grants to the states for the cleanup of abandoned mines. Both CBO and the Administration estimate that extending the fees would increase revenues by $260 million in 1996.

Increase the HUD Interstate Land Sales Fee. For the third year, the Administration proposes to increase the fee the Department of Housing and Urban Development (HUD) levies on developers who register

with HUD subdivisions they plan to market across state lines. The proposal would remove the present fee cap of $1,000 per developer, enabling HUD to raise the fee. CBO and the Administration estimate that the increase would raise revenues by less than $500,000 per year.

OTHER REVENUE PROPOSALS

The Administration proposes to increase the number of staff positions for Internal Revenue Service enforcement (IRS). In addition, an early budget proposal to extend special tax treatment to participants in Operations Desert Shield and Desert Storm has already been put in place through executive and legislative action.

Proposal to Increase Funding for Internal Revenue Service Enforcement Procedures

In addition to the pay-as-you-go revenue proposals, the President's budget proposes an increase in IRS enforcement funding and credits the initiative with revenue gains, above baseline levels, of $35 million in 1992 and $708 million over the 1992-1996 period. Because of problems in carrying out past proposals and generating net revenue gains, CBO does not credit the proposal with revenue gains (see Table III-8).

TABLE III-8. CBO/JCT AND ADMINISTRATION ESTIMATES OF THE PROPOSED INTERNAL REVENUE SERVICE INITIATIVE (By fiscal year, in billions of dollars)

Proposal	1992	1993	1994	1995	1996
Increase Enforcement Funding					
CBO/JCT	0.0	0.0	0.0	0.0	0.0
Administration	a	0.1	0.2	0.2	0.2

SOURCES: Congressional Budget Office; Office of Management and Budget.

NOTE: The cost of the initiative, estimated at approximately $0.2 billion over the 1992-1996 period, is not included in the revenue estimate.

a. Revenue increase of less than $50 million.

The initiative contains two components: an increase of 94 positions in the examination staff to increase the number of field audits, and an increase of 671 positions in the collections staff to reduce the backlog of delinquent accounts ("accounts receivable"). Although the Administration has provided details of the components of the estimated revenue gain resulting from the staff increase, these details are not based on historical evidence documenting how similar initiatives were put in place or what additional revenues were collected.

The General Accounting Office (GAO) published three reports in 1990 addressing implementation and revenue effects of like IRS initiatives.[3] These reports document problems with implementation and analyze shortcomings in data on IRS enforcement initiatives and in estimating methodology. Based on these reports, CBO concludes that revenue gains above baseline levels cannot be relied on and does not credit the proposal with revenue gains.

Income Tax Treatment of Desert Storm Participants

Compensation received by armed forces enlisted personnel for any month in which the person serves in a combat zone, or is hospitalized as a result of wounds or illness incurred while serving in a combat zone, is excludable from income for tax purposes. Excludable income is limited to $500 per month for officers. In addition, armed forces personnel (and their spouses) and support personnel serving in a combat zone are granted extensions for filing tax returns, paying taxes, and meeting other income tax obligations.

On January 21, 1991, President Bush signed Executive Order 12744 designating part of the Persian Gulf area as a combat zone retroactive to January 17 and putting the special income tax treatment in place. In addition, the Congress passed Public Law 102-2, which the President signed on January 30, liberalizing the combat zone income

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3. General Accounting Office, *Tax Administration: IRS' Improved Estimates of Tax Examination Yield Need to be Refined* (GAO/GGD-90-119, September 5, 1990); GAO, *Tax Administration: IRS Needs More Reliable Information on Enforcement Revenues* (GAO/GGD-90-85, June 20, 1990); GAO, *Tax Administration: Potential Audit Revenues Lost While Training New Revenue Agents* (GAO/GGD-90-77, April 6, 1990).

tax accommodations--in particular, specifying that interest on tax overpayments be credited during the period in which tax deadlines are suspended.

The President's budget originally proposed suspending income tax deadlines for Desert Shield participants. Events overtook the initiative, and the full set of accommodations has been put in place. Subsequently, the Administration labeled its early proposal, which appears in the budget revenue tables, a "placeholder." The placeholder has been omitted from the proposals analyzed in this report. The CBO revenue baseline has been revised to include the reduction in income taxes resulting from both the Executive Order and Public Law 102-2.

CBO'S REESTIMATE OF THE ADMINISTRATION'S BUDGET REVENUES

While CBO and JCT disagree with the Administration's estimate of the revenue effects of the proposed capital gains exclusion, this difference is small compared with the much larger reestimate of total revenues under the President's proposed budget. The larger reestimate results from different economic and technical assumptions used in projecting revenues unrelated to the capital gains exclusion. Examples of important economic assumptions are income tax bases and inflation. Examples of important technical assumptions are projected growth rates of exclusions and deductions available under the income tax, responses of individuals and corporations to changes in tax law, and inferences about tax collection drawn from recent payment patterns.

CBO's estimate of total revenues in 1992 under the President's budget is $7 billion more than the Administration's estimate because CBO's forecast for a shallower recession and stronger economic rebound holds wages, salaries, and corporate profits above those of the Administration (see Table III-9). After 1992, the Administration's projected economic growth catches up with and surpasses CBO's. The gap between projected tax bases and, consequently, revenues widens over the 1993-1996 period.

A notable component of the CBO reestimate of the President's fiscal year 1992 budget is the large technical difference between CBO and Administration revenues in 1994 and later years. Technical reestimates hold CBO revenues progressively further below the Administration's after 1993. The largest technical reestimates are in the individual income tax, which the Administration has revised upward from its 1990 Mid-Session Review level for reasons other than changed economic assumptions or newly enacted legislation. The combination of the economic forecast and technical differences holds CBO revenues $40 billion below Administration revenues in 1994 and $75 billion below in 1996.

TABLE III-9. CBO REESTIMATES OF THE ADMINISTRATION'S BUDGET REVENUES (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
Revenues as Estimated by the Administration	1,091.4	1,165.0	1,252.7	1,365.3	1,467.3	1,560.7
CBO Reestimates						
Baseline						
Economic	9.1	10.6	1.3	-17.7	-28.7	-40.1
Technical	-7.4	-3.7	-2.7	-16.8	-24.1	-29.5
Subtotal	1.7	6.9	-1.4	-34.5	-52.8	-69.7
Pay-as-You-Go Proposals						
Economic	0.0	a	-0.1	-0.1	-0.2	-0.2
Technical	0.4	0.3	-4.8	-5.0	-5.3	-4.5
Subtotal	0.4	0.3	-4.9	-5.1	-5.5	-4.7
IRS Enforcement Funding Proposal						
Economic	n.a.	0.0	0.0	0.0	0.0	0.0
Technical	n.a.	a	-0.1	-0.2	-0.2	-0.2
Subtotal	n.a.	a	-0.1	-0.2	-0.2	-0.2
Total	2.2	7.1	-6.4	-39.8	-58.5	-74.6
Revenues as Estimated by CBO	1,093.6	1,172.2	1,246.3	1,325.5	1,408.8	1,486.2

SOURCES: Congressional Budget Office; Joint Committee on Taxation; Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1992* (January 1991).

NOTES: Revenues include payroll tax receipts of the Old-Age, Survivors, and Disability Insurance (OASDI) trust funds, which are off-budget.

n.a. = not applicable.

a. Less than $50 million.

The difference in the out-year revenue estimates is also apparent when the estimates are measured relative to the levels of economic activity on which they are based--that is, when gross national product (GNP) shares are compared. CBO projects that Administration budget revenues in 1995 will hold the same 19.4 percent share estimated for 1991. The Administration projects that revenues will claim an increasing share of GNP, reaching 20.0 percent in 1995. This estimate is inconsistent with the Administration's projection of a falling taxable income share of GNP.

CHAPTER IV

THE ADMINISTRATION'S PROPOSALS FOR DEFENSE AND INTERNATIONAL AFFAIRS

The budgets for defense (function 050) and international affairs (function 150) address complementary national security and foreign policy objectives. This chapter describes each budget in terms of changes in current policies as measured by the CBO baseline and provides a more detailed analysis of major proposals.

The Bush Administration is requesting mandatory and discretionary defense appropriations for 1992 totaling $291 billion, an increase of $2 billion over 1991. Based on CBO estimates, outlays would total about $298 billion, a reduction of about $2 billion from 1991. Compared with the CBO baseline, which provides for zero growth in inflation-adjusted dollars, the budget would represent a reduction in real purchasing power of $11 billion or about 4 percent.

The discretionary portion of the Administration's defense budget meets the budget authority caps set forth in the Budget Enforcement Act for 1992 and 1993. But CBO estimates that the resulting outlays would exceed the outlay caps by $2.9 billion in 1992 and $0.8 billion in 1993:

	Discretionary Budget Authority		Discretionary Outlays	
	1992	1993	1992	1993
Caps as determined by OMB for defense programs	291.4	291.5	295.8	292.5
Administration's request as estimated by CBO	291.4	291.5	298.7	293.3
Difference	0	0	2.9	0.8

While CBO is the scorekeeper for the Congressional portion of the budget process, the Budget Enforcement Act charged the Office of Management and Budget (OMB) with the responsibility of estimating whether or not outlays for discretionary programs would breach the spending caps, thereby necessitating sequestration. There is a good deal of uncertainty inherent in estimating the outlay that will result from a given amount of budget authority. To allow for differences in outlay estimates between CBO and OMB, the act permits outlay estimates to exceed the defense caps by as much as $2.5 billion without triggering sequestration, as long as the budget authority caps are not breached. This special outlay allowance is not intended to be a margin for additional spending. Rather, it is to insulate the legislative process from estimating differences. CBO's reestimate of the Administration's national defense request exceeds this outlay allowance for 1992 but is within the allowance in 1993.

The international affairs functional totals are affected by certain volatile mandatory programs and by International Monetary Fund (IMF) quota payments, which are treated in a special manner under the Budget Enforcement Act. The foreign military sales trust fund is the major mandatory account that can have large and sometimes erratic impacts on net budget authority and net outlays.

The discretionary budget authority requested for international affairs would rise by $14.4 billion from 1991--an increase driven by a commitment to the International Monetary Fund--to a total of $33.9 billion, according to CBO estimates. Outlays would reach $19.9 billion in 1992, an increase of $1.1 billion from 1991. Over five years, budget authority would total $124 billion, and outlays $105 billion.

CBO's reestimate of the President's request for budget authority is $0.1 billion less than the 1992 cap for international programs as determined by OMB, and exceeds the 1993 cap by the same amount. The difference in 1992 is the net of CBO's lower estimate for arrearage payments to international organizations and peacekeeping activities, and a higher estimate for the buy-down of foreign military sales interest. In 1993, the difference results from a higher estimate for arrearage payments.

	Discretionary Budget Authority		Discretionary Outlays	
	1992	1993	1992	1993
Caps as determined by OMB for international programs	34.0	22.6	19.6	20.4
Administration's request as estimated by CBO	33.9	22.7	19.9	20.7
Difference	-0.1	0.1	0.2	0.3

CBO's estimates of outlays exceed the international caps in both 1992 and 1993 but are within the $1.5 billion estimating margin. The difference in 1992 is largely from CBO's higher estimates of outlays for food aid and the grant portion of foreign military financing. The 1993 difference is the sum of smaller differences in many of the larger programs.

THE DEFENSE BUDGET AND OPERATIONS DESERT SHIELD AND DESERT STORM

The incremental costs of Operation Desert Shield and Operation Desert Storm do not fall under the caps for defense spending established in the Budget Enforcement Act. Because the Defense Department was not able to provide firm estimates of the costs of these operations at the time the budget was prepared, the Administration's request for national defense (function 050) does not include any funding for their incremental costs.

However, the budget as submitted on February 4, 1991, made allowance for the possibility that some additional appropriations would be required by establishing a new category (subfunction 929) for Operations Desert Shield/Storm. The "placeholder" included in this function indicated that the Administration would request $14 billion in budget authority for deployment costs in 1991, as well as the authority to spend an additional $15 billion in contributions that it expected

from other countries. The net impact on the deficit in 1991 would be about $8 billion, and in 1992 about $5 billion.

Since that budget submission, the Administration has submitted a supplemental appropriation request to the Congress for 1991 for operations in the Persian Gulf region. The Administration requests $15 billion in appropriations of U.S. funds and permission to spend whatever cash contributions the United States receives from other countries. Since the budget was prepared, other countries have pledged over $50 billion (compared with the $15 billion assumed in the budget) and have actually paid (as of February 28, 1991) about $14 billion of the total pledge in cash and almost $3 billion in supplies and services. So if the Administration's supplemental request was approved and all the pledges were paid, the additional defense spending could total $65 billion.

The Administration's supplemental request was prepared and submitted before the ground stage of the conflict in the Gulf region had begun. As a result of the uncertainty about the duration and intensity of the combat, the request did not support any one particular dollar level of added costs. Instead, the documentation gave specific estimates for only noncombat costs. The Administration estimated that about $40 billion would be needed for noncombat costs: $21 billion to cover the costs of building and sustaining forces through March, $7 billion for projected in-theater costs as the combat phased down, and another $12 billion for near-term investment demands and to withdraw U.S. forces once the conflict was resolved. The Administration emphasized that the costs of combat could not be "definitively estimated at this point," but suggested that daily combat costs could range widely, from $150 million to $1,650 million, depending on how events unfolded.

Using the Administration's factors and base costs, CBO estimated that the added costs of the hostilities, which extended from January 16 through February 28, would be about $5 billion. The Administration's numbers, therefore, suggest that the total cost of the Gulf operation will be about $45 billion. But these estimates may overstate the amount of actual spending on the war for several reasons. First, the estimate of $45 billion assumes that all equipment and munitions lost

in the war would be replaced. However, the United States may decide not to replace some or all of the major equipment lost in combat because of planned reductions in its military forces, a decision that would hold down costs.

Second, it appears that some of the Administration's base estimates may have been overstated. For example, all of the estimates included the extra costs associated with higher fuel prices, not just for U.S. forces involved in Operation Desert Storm but for all U.S. forces worldwide. Arguably, the costs of higher fuel prices for U.S. forces outside the Persian Gulf do not represent an added cost of Operation Desert Storm. If not, then the Administration's estimate of required additional funding during 1991 could be reduced by $2.8 billion.

Added fuel costs may have been overstated for other reasons. The Defense Department's estimates were based on oil prices that are higher than those likely to prevail in the postconflict environment. If the department is able to purchase fuel for the rest of the year at the prices prevailing in early March, it would need about 50 percent fewer funds for added fuel costs. In some cases, the estimates also appeared to assume rates of fuel use higher than those suggested by military planning factors.

The Administration's request for $6.4 billion for "near-term investment" may also be a bit on the high side. Substantial portions of this request were based on anticipated rates of use during future combat. Included in this category are funds for several Army munitions (for example, MLRS rockets along with Patriot, Hellfire, and ATACMS missiles) and, possibly, some other munitions as well (for example, Tomahawk and HARM missiles). Before appropriating funds to replace such munitions, the number actually expended in combat should be ascertained. Nor does the documentation for near-term investment provide data about changes in requirements associated with the end of the Cold War. It is possible that some of the munitions expended in Operation Desert Storm may no longer be needed because of reductions in requirements.

Finally, by the standards of the last major U.S. war, the Administration's estimates for certain costs seem high. Some of those esti-

mates, which are made assuming no hostilities are under way, suggest that the Administration expects to spend an average of about $2 billion a month from August 1990 through March 1991 on operations and maintenance, to pay for day-to-day operating costs. That rate for non-combat operations and maintenance matches the rate of incremental monthly expenditures (adjusted to 1991 dollars) associated with the peak period of the Vietnam War, when fighting was intense. This apparent inconsistency might be explained by the high costs of operating and maintaining today's weapons, or because Operation Desert Storm involved many tanks whereas the Vietnam War did not. Or the high estimates for Operation Desert Storm may reflect the difficulty of identifying incremental costs.

THE DEFENSE BUDGET COMPARED WITH THE CBO BASELINE

The Budget Enforcement Act requires a real cut in defense funding levels. Comparing the Administration's proposals with the CBO baseline is one way of revealing how the Administration intends to stay within the discretionary appropriation caps for defense programs in 1992 and 1993. It also gives an indication of what the Administration proposes for 1994 and 1995, when there will be only one global cap for all discretionary programs. Reductions in budget authority and outlays below the CBO baseline indicate a real cut in funding because the baseline adjusts each category of funding to be constant in real terms at the levels enacted for 1991. In 1992, the major categories of the defense budget would be reduced by 5 percent or more from the baseline. The key exception is research, development, test, and evaluation (RDT&E), which would rise by 9 percent.

Table IV-1 shows how the Administration's request differs from the CBO baseline. Over five years, the largest reductions occur in funding for military personnel and operations and maintenance (O&M). Weapons procurement would fall by $25 billion, while increases for RDT&E through 1994 would be more than offset by reductions in 1995 and 1996. The Department of Energy's atomic energy defense activities would receive net funding increases over the period,

TABLE IV-1. PROPOSED MAJOR SPENDING CHANGES IN THE PRESIDENT'S BUDGET FOR FUNCTION 050, NATIONAL DEFENSE (By fiscal year, in billions of dollars)

	1992	1993	1994	1995	1996	Cumulative Five-Year Changes
Budget Authority						
CBO Baseline	301.7	314.3	327.8	341.9	356.6	
Proposed Changes						
Military personnel	-4.6	-8.6	-16.5	-20.9	-23.8	-74.3
Operations and maintenance	-4.2	-10.2	-14.7	-18.3	-20.9	-68.3
Procurement	-5.9	-5.1	-5.8	-2.7	-5.5	-25.1
RDT&E	3.2	2.7	0.2	-4.0	-7.1	-5.0
Atomic energy defense	0.4	0.4	0.6	0.8	1.0	3.2
Other defense	0.4	-2.6	0.3	-1.7	-2.6	-6.2
Total	-10.9	-23.4	-35.9	-46.8	-58.8	-175.8
President's 1992 Budget	290.8	290.9	291.9	295.1	297.8	
Outlays						
CBO Baseline	305.0	310.9	324.6	333.2	343.0	
Proposed Changes						
Military personnel	-4.4	-8.3	-16.3	-20.6	-23.5	-73.2
Operations and maintenance	-3.8	-9.1	-13.5	-17.3	-20.1	-63.8
Procurement	-1.0	-2.9	-4.4	-4.1	-3.8	-16.2
RDT&E	1.5	2.4	1.2	-1.9	-5.1	-1.9
Atomic energy defense	0.4	0.4	0.5	0.6	0.8	2.8
Other defense	0.4	-0.6	-1.7	-1.2	-1.7	-4.9
Total	-6.9	-18.1	-34.2	-44.5	-53.5	-157.2
President's 1992 Budget as Estimated by CBO	298.2	292.8	290.4	288.7	289.6	

SOURCES: Office of Management and Budget; Congressional Budget Office.

NOTE: RDT&E = research, development, test, and evaluation.

a cumulative increase of $6 billion for environmental activities being partially offset by a $3 billion reduction in the department's nuclear weapons activities.

Military Personnel

Military personnel appropriations are below the baseline because the Administration would lower personnel levels by about 320,000 from the active-duty force and by about 270,000 reservists by 1995 compared with the level funded for 1991. (The Administration has not provided details on its personnel program through 1996.) Strength reductions account for $50 billion of the $74 billion difference between the baseline and the request for 1992 through 1996. However, Operation Desert Storm may postpone the reduction in forces anticipated in the appropriation bills for 1991 because the military services have temporarily prevented people from leaving the service who had expected to leave. The effects of Operation Desert Storm were not factored into this budget, and they may delay some of the anticipated savings in military pay accounts.

Pay raises for military personnel are based on projections of the employment cost index (ECI) in both the Administration's budget request and the baseline. Because CBO's estimate of that index generally exceeds the Administration's projections, baseline pay costs are higher than Administration figures by $6 billion over five years. Finally, proposed transfers from military personnel accounts to other parts of the defense budget that are not included in the baseline explain an additional $6 billion in reductions from the CBO baseline over the 1992-1996 period.

The Administration also proposes a change in the Department of Defense (DoD) contribution for the future retirement costs of military service members, which would take effect in 1994. The budget describes this change as an improvement in the present system because the new method for calculating DoD's payment would reflect actual experience more swiftly than the present method. Details about the proposed method of determining DoD's payment are not included in the budget. Even so, the DoD payment is assumed to be smaller by ap-

proximately $3 billion each year beginning in 1994. Since this proposal is not well defined, CBO has no basis for a different estimate.

The mechanics of executing this proposal could lead to larger budget outlays than those anticipated in the budget agreement. In the federal budget, the DoD contribution for military retirement is a discretionary intragovernmental payment that is fully offset in the undistributed offsetting receipts function (budget function 950), which is not part of the system of discretionary caps. Therefore, any change in the DoD payment would have no net budgetary effect; a reduction in DoD contributions would be balanced by a reduction in offsetting receipts. But the Budget Enforcement Act places a ceiling on total discretionary spending in 1994. If the military retirement payment is lower by $3 billion, then spending on other programs can rise by $3 billion and stay within the spending cap. Consequently, this proposal could actually raise the deficit by increasing net spending, assuming discretionary spending does not fall below the fixed spending cap.

Operations and Maintenance

Proposed operations and maintenance appropriations fall short of CBO baseline levels for several reasons: a reduction in civilian personnel totaling 112,000 people by 1995; differences in pay raise and other price assumptions; force level reductions; and a myriad of other program decisions--some with increases and some with decreases--that result in a lower net request for budget authority. Over five years, the Administration's proposed budget authority is $68 billion below the CBO baseline--a reduction of 14 percent.

Procurement

The Administration has not yet provided much detail on the out-year component of its weapons procurement budget. In general, differences from the baseline occur because several programs would be terminated, including the Navy's stealth attack plane, the Peacekeeper missile, the F-15 fighter aircraft, the AV-8B Harrier aircraft, the M-1 Abrams tank, and the Bradley fighting vehicle. Force reductions

would reduce the need to procure other weapons in as large quantities as previously planned, including the F-16 and F/A-18 aircraft. Still, the procurement budget reflects a commitment to the next generations of many weapons, including the Navy's new attack submarine called the Seawolf, the newest destroyer, and the C-17 aircraft designed to move forces over long distances.

Research, Development, Test, and Evaluation

Proposed RDT&E appropriations exceed the baseline in 1992 through 1994 because of the budget's emphasis on strategic programs, intelligence and communications programs, and other programs in which technologies are applied to weapons. Funding for pure research--DoD's technology base--appears to decline relative to the baseline, but data are available to support that observation for only 1992 and 1993. The Strategic Defense Initiative accounts for over half of the increase relative to the baseline; the SDI would receive $1.6 billion more in 1992 than projected in the baseline.

Other Defense

The defense budget anticipates enactment of other legislation that would produce net budgetary savings. First, the Administration anticipates base closures beyond those recently approved in law. The new package of closures would lower spending in 1992 through 1996 by $5 billion, but no list of bases is provided in the budget. The Administration also proposes changes in the Davis-Bacon law governing wages on government contracts that would save about $0.7 billion in budget authority and about $0.6 billion in outlays. Other proposed legislation would affect miscellaneous programs, saving a net $0.3 billion in budget authority and outlays.

MAJOR DEFENSE PROPOSALS

In inflation-adjusted terms, the defense budget for 1992 through 1996 would continue a downward trend that began in 1986; over the five-

year period, the downward trend averages about 3 percent per year. With respect to budget authority, the Administration's defense budget is consistent with the Budget Enforcement Act, which specified levels of budget authority and outlays for defense through 1993. For 1994 and 1995, the budget request proposes increasing defense budget authority within the cap set on discretionary appropriations but not by enough to keep pace with inflation. The 1996 amounts are not constrained by the act, but nevertheless continue the real decline.

Table IV-2 compares requested budget authority for the years 1992, 1995, and 1996 with the defense budgets of 1980 and 1990. The comparisons with 1990 show how the budget relates to the base used in last summer's budget negotiations. They show that by 1995 the defense budget will be about 22 percent lower in real terms. The budget categories commanding the largest shares of the defense budget are set to decline almost proportionately by 1995. Growth in other defense categories is explained by reclassification of funding and by real increases in some programs. For example, in 1995 the growth in military construction reflects activities previously funded in operations and maintenance. The growth in atomic energy defense activities reflects real program growth that began in the 1991 budget and is maintained throughout this period.

The table also shows how this defense budget compares with that of 1980--the year used to mark the beginning of the defense buildup of the 1980s. In 1992 the budget will have about 16 percent more real purchasing power than in 1980, but in 1996 it will be reduced to the same purchasing power as in 1980. (However, the mix of forces and weapons purchases would be quite different.) The military personnel and operations and maintenance accounts commanded so large a share of the 1980 budget that the reductions in them leave room in the budget for real increases in almost every other category of defense spending.

The next few sections of this chapter discuss some of the major proposals in the 1992 defense budget. This discussion follows a framework developed during the budget negotiations in the summer of 1990 and used by Congressman Les Aspin, Chairman of the House Committee

on Armed Services, to articulate the choices facing the government in allocating defense resources.

Force Structure

The Administration's defense budget reflects many of the changes in force structure anticipated during last summer's budget negotiations. These changes, in terms of units and personnel strength, are shown in Table IV-3. The Army would lose 10 divisions, or 35 percent, of its major forces. In 1995, the Army would have about the same proportion of armored and mechanized divisions as today. Deployable aircraft carriers would be cut to twelve as four carriers are retired, two emerge

TABLE IV-2. REAL CHANGES IN NATIONAL DEFENSE BUDGET AUTHORITY (By fiscal year, in percent)

	Real Change Compared with 1980			Real Change Compared with 1990		
	1992	1995	1996	1992	1995	1996
Department of Defense--Military						
Military Personnel	-4	-18	-21	-8	-22	-24
Operations and Maintenance	15	0	-2	-14	-26	-27
Procurement	8	14	10	-28	-24	-27
RDT&E	79	49	38	1	-16	-22
Military Construction	23	54	53	-18	2	1
Family Housing	44	40	34	5	2	-2
Other DoD--Military	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Weighted Average	14	1	-2	-14	-23	-26
Other National Defense						
Atomic Energy Defense	139	146	149	12	15	17
Other National Defense	210	193	184	10	4	1
Weighted Average	142	148	151	12	15	16
Total, National Defense						
Weighted Average	16	4	1	-13	-22	-24

SOURCE: Congressional Budget Office.

NOTES: RDT&E = research, development, test, and evaluation; n.a. = not applicable.

from overhaul, and one new carrier is delivered. The Navy would be reduced by two active carrier air wings, and would also lose a net of 94 battle force ships as about 200 ships are retired and shipyards deliver

TABLE IV-3. CHANGES IN ACTIVE FORCES AND MANPOWER, 1990 TO 1995 (By fiscal year)

	1990	1995	Decrease	
			Units	Percent
Forces				
Army Divisions				
Active	18	12	6	33
Reserve	10	6	4	40
Deployed Aircraft Carriers	13	12	1	8
Carrier Air Wings				
Active	13	11	2	15
Reserve	2	2	0	0
Battle Force Ships	545	451	94	17
Tactical Fighter Wings				
Active	24	15	9	38
Reserve	12	11	1	8
Strategic Bombers	268	181	87	32
Manpower (In thousands)				
Military				
Active	2,069	1,653	416	20
Reserve	1,128	906	222	20
Civilian	1,073	940	133	12

SOURCE: Compiled by Congressional Budget Office based on data obtained from the Department of Defense.

about 100 new ships. The Air Force's tactical air component would be cut by nine active wings and one reserve wing.

Personnel strength would be reduced overall by about 20 percent below the 1990 level. Since both active and reserve personnel strengths would fall by the same proportions, the mix of active and reserve forces would not change. Personnel strengths are a useful measure of force levels, because many units in the force structure are not readily observable--for example, battalion- or company-level units in the Army that are separate from Army divisions.

CBO estimates that the Administration's proposed changes in force structure account for $95 billion of the $176 billion difference between requested budget authority and the CBO baseline for 1992 through 1996. In making these estimates, CBO relied on the Defense Department's Total Force Policy Study because the details of many force changes have not yet been released in an unclassified form by the Administration.

Readiness

DoD states that its budget request contains sufficient funding to maintain high levels of readiness. It appears that little of the difference between the Administration's defense budget and the CBO baseline can be explained by changes in readiness-related funding. Readiness is the ability to execute a mission at little or no notice. As such it depends on many factors, including the availability of new and current weapons.

A common measure of readiness is the amount of time the military departments use their equipment in training and force operations, and by this measure unit readiness does not appear to change from 1991. The Army expects to drive each of its combat vehicles about 800 miles each year and provide its aircrews with 14.5 hours of flight each month. The Navy would sail deployed ships 50.5 days per quarter and nondeployed ships 29 days per quarter. (Deployed ships are assigned to perform specific missions in various parts of the world, while nondeployed ships leave port for only short periods of time). The Air

Force's budget would allow its tactical aircrews to fly about 19 hours per month.

Overhead

The divisions, ships, and aircraft that account for the bulk of the defense forces are sustained by a vast support structure of bases, logistics depots, training facilities, and command elements. Some parts of the support establishment vary directly with the forces--that is, when forces change, some parts of the support structure make corresponding changes. But other parts of the support structure do not change as quickly if at all.

For example, if the Army reduced its strength by one division it might close or realign a base and scale back training programs, but the numbers of people and functions performed at the department headquarters in the Pentagon might not change at all. A reduction of 10 divisions could mean closing more bases, including training bases. While Pentagon operations might still be only marginally affected, other subordinate headquarters could be greatly affected.

Reductions in the support establishment are likely to occur in discrete steps. That is, reductions in overall forces may cause little or no change in the support establishment until some threshold is reached, triggering a sharp reduction in support. It is not clear, however, where those thresholds are. Analysis has shown that in the past the support establishment's adjustments to changes in the force structure have often been less than proportional, and have taken place over time.

Last summer's budget debate considered the support establishment as having two parts--one that is relatively sensitive to force changes and another, called overhead, that is not so sensitive. Although the boundary between these parts is not easy to define, the Administration would apparently make significant changes in overhead--perhaps cutting $60 billion from the overhead funding assumed in the CBO baseline for 1992 through 1996.

Most overhead functions are funded by appropriations for operations and maintenance. The next few sections discuss changes in O&M funding and other topics related to overhead--the Defense Business Operations Fund, base closures, military construction, and environmental cleanup activities.

Operations and Maintenance. O&M funding in the Administration's request would be $68 billion below the CBO baseline for 1992 through 1996. CBO estimates that about $30 billion of this difference can be traced to changes in force levels. The remaining $38 billion would represent reductions in overhead. The Administration has released little detail on the content of the 1992 budget, and the reclassification of funding obscures analysis even more. For example, the Administration would place real property maintenance activities under military construction instead of O&M where it has been in the past, differing in this respect from the CBO baseline.

Most of the changes in O&M occur in the out-years, which would be consistent with changes in overhead functions that occur over time, and with a number of management initiatives emphasized by the Defense Department. For example, DoD will consolidate certain finance functions into a departmentwide system--the Defense Finance and Accounting Service--while the Defense Logistics Agency will assume increased responsibility for supply operations of the services. The aim of these initiatives is to reduce redundancy and create efficiency. Another strongly emphasized initiative is the Defense Business Operations Fund (DBOF).

Defense Business Operations Fund. The military services furnish certain supplies and industrial services to each other on a revolving fund basis. In other words, supplies and services provided by one element of a service for another element are paid for by the latter out of appropriated funds. The stock and industrial funds obligate $75 billion to $80 billion per year. DoD is consolidating these accounts into one account--the Defense Business Operations Fund. The DBOF will change accounting practices so that prices will better reflect actual costs, and provide the customers of these businesslike activities with an incentive to seek low-cost solutions.

The budget is silent on some matters related to the DBOF, such as how projected funding has been reduced in anticipation of lower costs. This issue is particularly relevant to O&M, which is the largest single customer of DBOF activities. Savings can be expected from streamlined administration, but savings are also likely to occur if customers are given the option to seek alternative sources of supply. It is not clear whether DoD customers will be permitted to seek suppliers from outside the government for some items. If not, then savings may be limited because the new accounting and pricing standards may only allocate funds differently without significantly changing incentives or costs.

Base Closures. The Administration's defense budget includes $1.3 billion in 1992 and 1993 to meet the one-time costs of closing a list of bases approved by the Congress a year ago. Over the next five years, more than 40 bases will be closed or realigned in accordance with that list, which was prepared by the Defense Secretary's Commission on Base Realignment and Closure. These closures cost money in the near term because of one-time expenditures for such items as transportation and new construction at sites to which activities are relocated. The Congress has appropriated $1.5 billion through 1991 for these activities. Such amounts are deposited in the Defense Base Closure Account to be used for the one-time costs of closures.

The Administration expects to save about $5.3 billion in 1992 through 1996 from closing still other bases that have not yet been identified. Legislation adopted in 1991 established a new process for future closures, in addition to those already recommended by the 1989 Commission. Under this plan, a new Base Closure Commission composed of eight members appointed by the President will consider a list of potential base closures recommended by the Secretary of Defense. Separate lists are to be prepared and considered in 1991, 1993, and 1995. The criteria for including bases on the closure list will be similar to those applied by the previous commission, except that less emphasis will be placed on how soon a specific closure must yield net budgetary savings. Also, as in the past, the commission's recommendations will be implemented unless a joint resolution of the Congress is passed in opposition to the entire list of recommendations--not just to isolated recommendations.

Because of the uncertainty surrounding the number and type of installations that may eventually be considered for closure by the new commission, there is no way to estimate the future one-time costs of closing these bases and the recurring annual savings that will result. Future closures may differ in some important respects from the previous round of closures. The previous closures did not accompany major reductions in missions. Instead, many were aimed at raising operating efficiencies by relocating and consolidating activities. Future closures will occur at a time when many activities are being curtailed rather than reorganized. This could mean that future closures will involve fewer one-time costs because, for example, only minimal military construction would be required at the sites to which activities were being transferred. In addition, personnel savings, which constituted 70 percent to 80 percent of projected annual savings in the previous round of closures, could be even higher.

Military Construction. The Administration's request for military construction is only $0.7 billion below the CBO baseline for 1992 through 1996, but the actual reduction in the construction program is much larger than that. This construction budget includes billions of dollars for repair of real property that had previously been requested under O&M and RDT&E. In 1993 alone, $1.8 billion of repair funding is being shifted between the accounts. This shift masks a significant pause in the construction of facilities in 1992 and 1993. Construction funding rises above baseline levels after 1993, but if the baseline were adjusted for transfers between accounts the request would fall short of matching the rate of construction approved for 1991.

Construction outside the United States would be $300 million in 1992, decreasing to $100 million in 1993, as compared with about $250 million in 1990 and about $100 million in 1991.

Environmental Cleanup Activities. The budget for national defense includes funding for the Departments of Defense and Energy to restore or clean up the environment. The DoD budget would continue funding for environmental restoration at over $1 billion per year--about the same rate of real spending that has been the norm in recent years. Environmental activities of the Department of Energy (DOE) take a larger share of the atomic energy defense request each year--growing

from 25 percent in 1991 to 38 percent in 1996. Within its request for the DOE, the Administration seeks about $310 million to develop technology for restoring the environment, an increase of about 30 percent over 1991.

Modernization

The reductions in forces planned for the next few years mean that fewer weapons will be needed, because the forces that remain can employ the stock of weapons left by those disbanded. However, there will still be a need to procure more modern weapons, as can be seen in the Administration's request for weapons procurement and RDT&E. Funding for weapons procurement would be $25 billion below the CBO baseline in 1992-1996, and funding for RDT&E would be $5 billion below. About $10 billion of the procurement reduction is a net cut in funds for modernization because the remaining reduction can be traced to changes in the force structure. No detailed information on the request is available for the whole period; consequently, the following discussion emphasizes the request for 1992.

Procurement. In general, the Administration would buy fewer weapons than in the recent past, and fewer aircraft than in any year since 1978. In 1992, it would buy 359 aircraft--about half as many aircraft as it bought in 1990. Tactical missiles, strategic missiles, and Army vehicles would also be purchased in lower quantities. The number of ships sought for 1992 is somewhat greater than in 1991, but only half as much as in 1990.

Purchases of many weapons employed in the war in the Persian Gulf would be reduced in 1992, not only in comparison with 1991 but in comparison with what was planned in the Administration's budget a year ago. For example, the current request for 1992 would buy 48 F-16 aircraft; 108 are being purchased in 1991, and the Administration planned to buy 150 F-16s in 1992 when it submitted its budget a year ago (see Table IV-4). The Administration's plan for these weapons probably reflects force reductions planned for the next few years. DoD may have sufficient stocks of these weapons to satisfy its needs for the

TABLE IV-4. PROGRAM CHANGES IN THE 1992 PROCUREMENT REQUEST FOR KEY WEAPONS DEPLOYED IN OPERATION DESERT STORM

Weapons Systems	1992 Request		Requested Quantities Compared With	
	Quantity	Millions of Dollars of Budget Authority	1991 Actual	Last Year's Plan for 1992
Aircraft				
AV-8B Aircraft	0	1	-24	0
E-2C Aircraft	6	533	0	0
EA-6B Aircraft	0	110	-1	-9
F-14 Aircraft	0	0	0	-24
F-15 Aircraft	0	185	-36	0
F-16 Aircraft	48	1,244	-60	-102
F/A-18 Aircraft	36	1,988	-12	-30
AH-1 Helicopter	12	133	12	0
SH-60B Helicopter	12	253	6	0
SH-60F Helicopter	12	268	-6	0
UH-60L Helicopter	60	508	12	0
Missiles				
Army Tactical Missile System (ATACMS)	300	175	-18	-111
HARM Missile (Navy)	749	218	-571	-1,151
HARM Missile (Air Force)	465	117	345	-60
Hellfire Missile (Army)	112	20	-2,890	-2,678
Hellfire Missile (Navy)	0	0	-1,198	-1,034
Patriot Missile	0	107	-817	-440
Tomahawk Missile	236	471	-164	-364
TOW-2 Missile	10,000	201	-284	-6,802
AGM-130 Missile	120	72	72	a
Weapons and Tracked Combat Vehicles				
Bradley Fighting Vehicle	0	109	-600	-600
M-1A1 Abrams Tank	0	44	-225	0

SOURCE: Compiled by Congressional Budget Office based on data obtained from the Department of Defense.

a. Data not available.

next several years. Also, it may seek to replenish stocks of these weapons through its supplemental request to cover war losses, because such incremental costs of the war do not count against the budget ceilings for defense.

Overall, procurement funding would fall by only about 9 percent in real terms from 1991 to 1992. Some new, expensive weapons would be purchased, and reductions in the numbers bought would drive up the unit costs of current weapons. The Administration would buy four B-2 Stealth bombers in 1992 at a cost of $3.2 billion, compared with $2.4 billion in the CBO baseline. The Air Force would buy six C-17 transports with a request of $2.2 billion in 1992. The Navy would buy five new destroyers with $4.5 billion, compared with the $3.3 billion included in the baseline for four destroyers.

Last year's budget stated that acquisition efficiency was a major priority, and it still receives special emphasis. However, the force reductions that are now possible mean that some weapons will be purchased at higher unit costs (see Table IV-5). For example, the request for 1992 will buy 36 F/A-18 aircraft, a cut of 25 percent from 1991, but unit costs will rise by almost 50 percent. Some of this increase may result from the program's carrying a higher share of McDonnell Douglas overhead, since two other McDonnell Douglas programs have been canceled (the AV-8B and the F-15E). Similarly, the E-2C early warning aircraft is being bought at the same rate as in 1991, but unit costs will rise by about 29 percent, possibly because the contractor, Grumman Aerospace Corporation, faces termination or deferral of two other of its programs--the F-14 remanufacture and the EA-6B.

Overall, the Administration's defense budget emphasizes the next generation of weapons, as shown in Table IV-6. Funding for these weapons would exceed the CBO baseline by $6.1 billion, or 13 percent, while funding for the current generation of weapons would fall short of the baseline by $5.6 billion, or 10 percent. Growth in RDT&E accounts for most of this result, and of all RDT&E programs the Strategic Defense Initiative garners the largest increase.

RDT&E. The Administration is seeking funds for research, development, test, and evaluation that would total $40 billion in 1992 and $41 billion in 1993. The 1992 request represents a $3.2 billion real in-

TABLE IV-5. SELECTED PROGRAM CHANGES FOR AIRCRAFT AND MISSILE PROCUREMENT IN THE PRESIDENT'S REQUEST FOR FISCAL YEAR 1992

Weapons System	Quantity	Millions of Dollars of Budget Authority	Change from 1991	
			Quantity	Unit Cost (Percent)
Aircraft				
MH-60G Helicopter	6	28	2	-59
SH-60B Helicopter	12	253	6	-27
Tanker Transport (TTTS)	37	169	9	-22
UH-60L Helicopter	60	508	12	-10
RC-12 Aircraft	6	190	3	5
F-16 Aircraft	48	1,244	-60	11
SH-60F (CV ASW) Helicopter	12	268	-6	18
E-2C Aircraft	6	533	0	29
Civil Air Patrol Aircraft	27	2	-11	43
F/A-18 Aircraft	36	1,988	-12	49
Missiles, Torpedoes, and Other Weapons				
AMRAAM Missile (Air Force)	1,000	782	530	-35
AGM-130 Powered GBU-15	120	72	72	-30
MK-50 ALWT Torpedo	246	274	-19	-17
Advanced Cruise Missile	120	518	35	-16
Penguin Missile	42	46	2	-7
HARM Missile (Air Force)	465	117	345	-7
Avenger (LOS-R) Fire Units (Army)	144	180	56	-2
ATACMS Missile	300	175	-18	-2
AMRAAM Missile (Navy)	191	215	-74	-2
Standard Missiles (MR)	525	424	-265	-1
TOW-2 Missile (Army)	10,000	201	-284	4
HAVE NAP Missile	32	37	6	5
HARM Missile (Navy)	749	218	-571	6
Tomahawk Missile	236	471	-164	13
MD-48 ADCAP Torpedo	108	315	-132	37
MLRS Rocket Launchers	43	183	-23	98
Laser Hellfire Missile (Army)	112	20	-2,890	381

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

TABLE IV-6. INVESTMENT IN THE NEXT GENERATION AND CURRENT GENERATION OF WEAPONS
(In billions of dollars of budget authority)

Category	1992 CBO Baseline	1992 President's Request	Difference Dollars	Difference Percent
Next Generation				
Selected Weapons Systems				
SSN-21 submarine	2.4	2.4	a	-2
DDG-51 destroyer	3.4	4.5	1.2	35
Trident II missile	1.6	1.3	-0.4	-22
AMRAAM missile	0.9	1.0	0.2	17
B-2 bomber aircraft	4.2	4.8	0.5	12
C-17 aircraft	1.0	2.8	1.7	165
Other	2.0	1.0	-1.0	-48
Other				
Army RDT&E	5.4	6.1	0.7	13
Air Force RDT&E	9.6	12.6	3.0	32
Navy RDT&E	7.9	7.2	-0.7	-8
Other RDT&E	9.5	10.3	0.8	8
Total	48.0	54.0	6.1	13
Current Generation				
Selected Weapons Systems				
Bradley Fighting Vehicle	0.7	0.1	-0.6	-84
F-16 aircraft	2.2	1.4	-0.8	-37
M-1 tanks	0.8	0.1	-0.8	-91
F/A-18 aircraft	1.8	2.4	0.7	38
MX missile	0.6	0.2	-0.4	-65
Other				
Air Force aircraft	4.6	4.3	-0.3	-7
Air Force missiles	4.8	4.9	a	b
Air Force other procurement	7.9	8.1	0.2	2
Navy aircraft	4.7	5.2	0.5	11
Navy other procurement	5.8	6.5	0.7	12
Navy ships	3.5	2.2	-1.2	-36
Navy weapons	3.7	2.9	-0.8	-22
All other procurement	13.8	11.1	-2.8	-20
Total	55.0	49.4	-5.6	-10

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

NOTE: RDT&E = research, development, test, and evaluation.

a. Less than $50 million.

b. Less than 0.5 percent.

crease, or 9 percent above CBO's baseline, while the 1993 amount is about 7 percent, or $2.7 billion, above the baseline. Although details of the Administration's plans beyond 1993 are not available, the following discussion identifies some of the more significant programs that are planned for 1992 and 1993.

Most of the real growth in 1992 and 1993 is in programs managed by the Strategic Defense Initiative Organization (SDIO). The budget would provide $4.6 billion in 1992 and $4.9 billion in 1993 for the SDI program and would consolidate tactical missile defense programs under the control of SDIO at nearly $600 million in both years. Programs included in the tactical missile defense initiative are the Patriot missile, Extended Range Interceptor, and Arrow Continuation Experiments.

Real growth in strategic programs in 1992 of about 14 percent can be traced to the Air Force's Milstar satellite communications system, which would receive nearly $1.1 billion in 1992 and about $1.2 billion in 1993. Other strategic programs in the 1992 request include $1.6 billion for the Air Force's B-2 bomber, nearly $300 million to continue development of the Rail Garrison basing mode for Peacekeeper missiles, and about $550 million for full-scale development of the small intercontinental ballistic missile (SICBM)--all next-generation weapons.

While tactical programs would grow by 4 percent in 1992 and 5 percent in 1993 in real terms, closer scrutiny reveals that this growth results from both cancellations and continuations in the next generation of weapons. The Air Force's Advanced Tactical Fighter would receive $1.6 billion in 1992 and $2.3 billion in 1993 for full-scale development. At the same time, the Air Force would cancel its version of the Navy's A-12 Aircraft--the Advanced Tactical Aircraft. The Navy also would cancel the A-12 program and its version of the Advanced Tactical Fighter, but it requests about $400 million in 1992 and $1.0 billion in 1993 to start developing a new variation of the F/A-18--a plane capable of performing fighter and attack roles. The Army requests about $450 million for modernization of armored systems in 1992 and $400 million in 1993, along with $550 million in 1992 and about $600 million in 1993 to develop its Light Armed Scout Helicopter.

Activities that explore basic research to ensure that the United States maintains technological superiority would decline in real terms by 6 percent, or $0.2 billion, in both years. Intelligence and communications programs would grow by 9 percent, or $0.4 billion, in 1992 in real terms. This increase can be traced primarily to changes in classified programs. Funding to support defense-wide mission support activities (that is, programs with many and diverse applications) would decline by 1 percent in 1992 and remain constant in 1993, both in real terms.

Atomic Energy Defense Activities. The structure of the Department of Energy's nuclear weapons complex will undergo a sweeping change during the next five years. The vast complex of laboratories and plants will be restructured in response to the lower demand for nuclear material products and increased demand for environmental and security safeguards and verification technologies.

Because of reduced demand for nuclear material products, and in response to problems with safety and the environment, DOE is not operating any reactors at present and it plans to reopen only one reactor (at Savannah River) in the near term. Accordingly, the budget request for materials production in 1992 is approximately $465 million, or almost 20 percent, lower than the 1991 funding level. Two facilities--at Fernald, Ohio, and Hanford, Washington--have ceased production permanently and would be funded only for environmental cleanup.

Meanwhile, DOE will examine alternatives for modernizing the U.S. atomic weapons complex. The largest increase in the 1992 weapons activities request (over 31 percent) is for new production reactors, including funding for preliminary design and testing of new production reactor technologies. A technology is to be chosen in December 1991. The budget includes funding to design and construct only one new production reactor embodying the chosen technology.

Another area with an increase over the 1991 level is the development of naval reactors. The 1992 budget includes $800 million for this activity, in comparison with 1991 funding of just over $650 million. More than $120 million of this increase represents a shift in the funding source for the highly enriched uranium used in naval reactor cores,

from the enriched materials budget to the naval reactors budget. The remaining $25 million of the increase is attributable to the development program for the Advanced Fleet Reactor (to power the Seawolf class submarines), and to the continued extensive servicing and refueling of prototype naval reactor plants.

CBO REESTIMATES OF THE ADMINISTRATION'S REQUEST FOR NATIONAL DEFENSE

In general, CBO and OMB have a common estimate of outlays for the accounts in the defense budget. But in two cases there are differences that are quite large (see Table IV-7).

TABLE IV-7. CBO REESTIMATES OF PROPOSED SPENDING IN THE PRESIDENT'S BUDGET FOR FUNCTION 050, NATIONAL DEFENSE (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	298.9	295.2	292.0	286.7	288.6	293.2
CBO Technical Reestimates						
Department of Defense						
Transfer proposal	0	2.3	0.5	0.1	a	a
Military personnel	0	0	0	3.6	0.1	-3.7
Procurement	0.1	a	a	a	a	a
RDT&E	0	0.1	0.1	a	a	a
Other Department of Defense	0.7	0.4	0.2	0.1	a	0
Subtotal	0.7	2.8	0.7	3.7	0.1	-3.7
Atomic Energy	a	0.1	0.1	a	a	a
Other Defense	a	a	a	a	a	a
Total	0.7	3.0	0.8	3.7	0.1	-3.7
President's 1992 Budget as Estimated by CBO	299.6	298.2	292.8	290.4	288.7	289.6

SOURCES: Office of Management and Budget; Congressional Budget Office.

NOTE: RDT&E = research, development, test, and evaluation.

a. Less than $50 million.

The major estimating difference for 1992 between CBO and the Administration results from an Administration proposal to change the procedures that DoD uses to transfer funds to intelligence agencies. The Administration argues that the current budgetary treatment of funds appropriated to DoD for intelligence programs that are later transferred to other agencies overstates outlays for DoD and for the budget as a whole. Though legislation may not be necessary to change the procedures--and consequently the budgetary treatment--the budget seeks legislation aimed at slowing DoD's disbursement of appropriations destined for other intelligence agencies. The Administration estimates that this legislation would lower DoD outlays by $2.3 billion in 1992 and $2.9 billion over five years.

CBO's reestimate of the Administration's defense budget does not assume any savings from this proposal. Funds transferred from the DoD budget to intelligence agencies are subsequently deposited in the U.S. Treasury, so any change in the transfer procedure would neither represent any real savings to the government nor affect government borrowing. In other words, the Administration proposes to change only an intragovernmental transaction. This change in accounting is analogous to credit reform, which changed the accounting for credit assistance programs. In this case, the caps on discretionary appropriations under the Budget Enforcement Act were adjusted to hold the appropriations harmless from an accounting change. CBO believes that a similar adjustment should be made for the defense intelligence transfer proposal and that it is inappropriate to claim outlay savings.

Another difference stems from assumptions about pay dates. When the first paycheck of a fiscal year falls on a weekend, current law allows the Department of Defense to issue that paycheck on Friday, pushing it into the previous fiscal year. For example, the first paycheck of fiscal year 1990 fell on Sunday, October 1, 1989, and checks were issued on Friday, September 29, which was the last working day in fiscal year 1989. The first paydays of 1995 and 1996 will fall on the weekend. CBO assumes these paydays will be advanced to the previous fiscal year, affecting the timing of outlays but not of budget authority. The Administration's budget assumes that these paydays will not be advanced as was done previously, although this change could still be made after the budgets for these years are proposed.

Also, CBO assumed different outlays in previous years for the Defense Business Operations Fund and for Coastal Defense Augmentation. These differences amounted to about $0.7 billion in 1991 and $0.4 billion in 1992. In addition, CBO adjusted the outlay estimates for the Navy's aircraft and research accounts to reflect a proposed transfer of $165 million in 1992 for development of the V-22 Osprey. This adjustment raises the spending in 1992 from that budget authority because outlays occur more quickly from the research account than from the aircraft procurement account.

THE ADMINISTRATION'S BUDGET REQUEST FOR INTERNATIONAL AFFAIRS

The international affairs function is composed of foreign aid, the conduct of foreign affairs through the State Department and U.S. membership in international organizations, foreign information and exchange activities conducted by the United States Information Agency and the Board for International Broadcasting, and international financial activities--primarily export financing through the Export-Import Bank (Eximbank).

The President's budget follows a well-established pattern of requesting real increases in the budget year, offset by requests for future years that represent a real decline (see Table IV-8). Not counting the $12.2 billion appropriation request to meet the increased quota payment for the International Monetary Fund, the 1992 appropriation request for discretionary programs represents a 4.6 percent real increase over 1991. For most programs, the requests after 1992 grow at half the rate of inflation and fall below the baseline by 1995. In 1992, the President requests a large increase for the Enterprise for the Americas Initiative, for a Presidential Contingency Fund, and for construction and rehabilitation of State Department buildings, along with decreases in food aid and foreign military financing.

Comparison of the President's request with the CBO baseline encounters a bias in the baseline. The Foreign Operations Appropriations Act for 1991 contained a technical error that provided $403.5 million more in foreign military financing (FMF) than intended. This

prompted sequestration of 1.9 percent of budgetary resources for all discretionary international affairs programs. The President requested a rescission of the extra FMF funds and a restoration of the sequestered resources, but the Congress had not completed action at the time this report was prepared. The CBO baseline is based on the post-sequestration levels and is therefore skewed toward foreign military financing.

TABLE IV-8. PROPOSED MAJOR SPENDING CHANGES IN THE PRESIDENT'S BUDGET FOR FUNCTION 150, INTERNATIONAL AFFAIRS
(By fiscal year, outlays in billions of dollars)

	1992	1993	1994	1995	1996	Cumulative Five-Year Changes
CBO Baseline	17.7	17.9	18.4	19.1	19.9	
Policy Changes						
Foreign aid						
Enterprise for the Americas	0.3	0.3	0.2	0.1	0.1	1.0
Presidential contingency fund	0	0.3	0.4	0.3	0.2	1.2
Military assistance	-0.2	-0.3	-0.3	-0.5	-0.7	-2.0
P.L. 480, food aid	-0.1	-0.2	-0.3	-0.3	-0.4	-1.3
Other foreign aid	0.1	0	0.1	0	-0.2	-0.1
Conduct of foreign affairs						
State Department	0.1	0.1	0.2	0.2	0.2	0.8
Foreign information and exchange activities	0	0	-0.1	-0.1	-0.2	-0.4
Export-Import Bank and other	0.1	0.1	0.1	0.1	-0.1	0.2
Total	0.3	0.3	0.3	-0.4	-1.0	-0.5
President's 1992 Budget as Estimated by CBO	18.0	18.2	18.7	18.7	18.9	

SOURCES: Office of Management and Budget; Congressional Budget Office.

Foreign Aid

Foreign aid comprises development and humanitarian assistance and security assistance. The latter includes foreign military sales financing and the economic support fund provided for political or national security purposes. The President is requesting two new programs--are Enterprise for the Americas Initiative and the Presidential Contingency Fund.

Enterprise for the Americas Initiative. The Enterprise for the Americas Initiative (EAI) features budget authority of $0.7 billion over the next three years for restructuring bilateral debt, and $0.5 billion over the next five years for a contribution to an investment fund to be administered by the Inter-American Development Bank. The debt to be restructured is primarily old development assistance loans bearing interest rates between 0.75 percent and 3 percent with up to 37 years to repay. The appropriation represents the difference between the present value of the "expected" stream of repayments on the old loans and the present value of a new debt instrument that will replace them. Interest on the new debt instrument may support environmental activities within the debtor countries. In addition, the proposal includes a complicated triangular sale of Commodity Credit Corporation and Eximbank loan assets for debt-for-equity and debt-for-nature transactions. The EAI would increase spending by $1.0 billion over the five-year period.

Presidential Contingency Fund. The President is requesting budget authority of $20 million in 1992, and $1.3 billion over the next five years, for a Presidential contingency fund. The fund is classified as an international financial program, but appears to be security assistance that can be programmed with flexibility. This request would increase spending by $1.2 billion over the five-year period.

Military Assistance. The foreign military financing program provides credits and grants to enable foreign countries to buy U.S. military equipment and services. The President's request for FMF financing is below baseline by $0.2 billion in 1992 and by $2.0 billion over the five-year period. Over half of the savings are from freezing the financing for Israel and Egypt at $1.8 billion and $1.3 billion, respectively. The

remainder stem from the President's proposal to rescind $0.4 billion in FMF grants appropriated for 1991 and already projected over the 1992-1996 period in the CBO baseline.

For the first time since 1989, the President is not requesting that FMF be provided solely as grants. In the past two years, the Congress provided $0.4 billion per year as concessional loans. The request for $0.3 billion in concessional loans represents a 25 percent reduction from baseline loan levels. In addition, the President is requesting that the Eximbank provide up to $1.0 billion in loan guarantees to finance the export of military equipment and services.

Public Law 480, Food Aid. The creation of a new Title III grant program, along with the reform in the budgetary handling of credit, make comparison of the 1992 food aid program with the 1991 program difficult. The appropriation request of $1.3 billion for 1992 is an increase of $0.3 billion over 1991, but it represents a program cut of $0.2 billion from the CBO baseline and a reduction in commodity shipments of 0.7 million metric tons. The request would lower spending for the P.L. 480 program by $1.3 billion over the next five years.

Other Foreign Aid. The President is requesting full funding of scheduled contributions and subscriptions to the multilateral development banks (MDBs) and funding to compensate for past cuts in the scheduled payments. New replenishments for the MDBs will raise outlays $0.2 billion above the baseline over the next five years. Outlays for the Agency for International Development's assistance programs are higher than the baseline by $0.3 billion over the five-year period, while those for the economic support fund are lower by $0.4 billion. The sub-Saharan Africa development assistance and special assistance initiatives are funded at baseline levels. In other programs, the President is requesting an increase for narcotics control programs, and a decrease for migration and refugee assistance and in voluntary contributions to international organizations. In total, the request for other foreign aid programs would lower outlays by $0.1 billion over the five-year period.

Conduct of Foreign Affairs

The conduct of foreign affairs category includes funds for the State Department for carrying out relations with foreign governments. It also includes funds for assessed payments to international organizations of which the United States is a member.

State Department. The President is proposing $130 million in start-up costs for a new embassy building in Moscow, but the request does not include additional funds in 1993 through 1996 to complete the Moscow project. He is also proposing a five-year rehabilitation and replacement program for other U.S. embassies and consulates. These two proposals are expected to increase spending by about $60 million in 1992 and $800 million over the five-year period.

International Organizations and Conferences. The United States pays assessed contributions to international organizations such as the United Nations, and also pays a share of the expenses for international peacekeeping activities in regions such as the Middle East. In 1986 through 1990, appropriations for many of these programs fell short of assessments. The President is proposing an appropriation of $503 million for full funding of the amounts owed by the United States from that five-year period. The obligation of these funds, however, would be spread over the next four years, resulting in spending near the levels projected in the CBO baseline.

Foreign Information and Exchange Activities

Funding for overseas broadcasting by the United States Information Agency (USIA) and the Board for International Broadcasting (BIB) is near baseline levels in 1992. Over the next five years, the request for the BIB is $0.2 billion below baseline levels, while the request for the USIA is lower by $0.1 billion.

Export-Import Bank and Other Programs.

In this category, the President is requesting a single subsidy appropriation and a single limitation of $9,525 million on loans, guarantees, and insurance. The limitation is lower than those provided in past years, but previous guarantee limitations were always in excess of actual activity. The single limitation will allow Eximbank flexibility to provide financing either as loans or as guarantees, as needed to meet demand. The President would eliminate the interest-equalization program in favor of more cost-effective direct loans. He is also proposing to finance exports of military equipment and services through Eximbank.

For the International Monetary Fund, the President is requesting the appropriation of 8.6 billion in Special Drawing Rights (an international monetary unit), or $12.2 billion at the time the budget was prepared, for U.S. participation in the IMF quota increase. Transactions with the IMF are considered as exchanges of monetary assets and not as a part of receipts or expenditures.

CBO REESTIMATES OF THE ADMINISTRATION'S REQUEST FOR INTERNATIONAL AFFAIRS

CBO reestimates of the President's budget are smaller than in recent years, $0.2 billion or less per year for 1992 through 1996, and all are technical in nature (see Table IV-9). Differences in economic assumptions have in the past resulted in differences in estimates of interest income from the Exchange Stabilization Fund. This year, the President's estimate of outlays for the fund was rounded to the nearest half-billion, obscuring any differences resulting from economic assumptions.

Discretionary Programs

Public Law 480, Food Aid. The Administration has changed its spendout rates for the Public Law 480 program from 100 percent in the first year to a three-year disbursement pattern. In the process, the

third year of spending has been omitted. CBO continues to use a two-year spendout rate, raising outlays by over $0.1 billion in all years.

Foreign Military Financing. The CBO and Administration estimates for the foreign military financing program appear to be close in their totals. However, the reform in the budgetary handling of credit programs would move all pre-1992 loan activity to mandatory liquidating accounts. The Administration estimate of disbursements from loan balances appears to be prorated at an even rate. Most of the loan balances are for Greece, and CBO estimates these will disburse at a slower rate than the average for the account. The differences in estimates of grant and loan disbursement rates result in a higher CBO estimate for the discretionary foreign military financing account in

TABLE IV-9. CBO REESTIMATES OF PROPOSED SPENDING IN THE PRESIDENT'S BUDGET FOR FUNCTION 150, INTERNATIONAL AFFAIRS
(By fiscal year, outlays in billions of dollars)

	1992	1993	1994	1995	1996
President's 1992 Budget	17.8	18.3	18.5	18.5	18.6
CBO Reestimates					
Discretionary					
P.L. 480, food aid	0.1	0.1	0.1	0.1	0.1
Foreign military financing	0.2	0	-0.1	-0.1	-0.1
Eximbank	-0.1	-0.1	-0.1	-0.1	-0.2
Other discretionary	0.1	0.3	0.1	-0.1	0.0
Mandatory					
Exchange Stabilization Fund	0.1	0.1	0.1	0.1	0.1
Eximbank	-0.1	-0.2	0	0.2	0.1
P.L. 480, food aid	0.1	0	0	0	0
FMF liquidating account	-0.2	-0.2	0.2	0.2	0.2
Total	0.2	-0.1	0.2	0.2	0.2
President's 1992 Budget as Estimated by CBO	18.0	18.2	18.7	18.7	18.9

SOURCES: Office of Management and Budget; Congressional Budget Office.

1992 and 1993, and lower CBO estimates thereafter. In the mandatory liquidating account, the differences would have the opposite effect.

Eximbank. The President's request for the subsidy cost of Eximbank programs is nearly two and one-half times the CBO baseline level. This reflects estimating differences in the subsidy cost of the bank's programs--primarily for short- and medium-term guarantees to moderate-risk countries. Eximbank's financial estimates appear to be very conservative as compared with those of other agencies and of CBO. Obligations for the subsidy account were estimated using the lower CBO subsidy estimates. The lower obligation estimates reduce the estimate of outlays by $0.1 billion in 1992 and $0.7 billion over the five-year period through 1996.

Other Discretionary. Higher outlays in 1993 are the sum of small differences in second- and third-year spendout rates for most programs.

CBO has two major reestimates of budget authority. CBO would add $0.3 billion in budget authority in 1992 for an advance appropriation to buy down foreign military sales interest. The funds were provided by the Congress subject to a Presidential request. The Administration has not yet requested the funds and therefore does not count them. CBO counts them because they are available to the President without further action by the Congress.

In addition, CBO would reestimate a $0.5 billion request for arrearage payments for assessed contributions to international organizations and peacekeeping activities. The President requested the funds for 1992, but limited their obligation to one-quarter of that amount per year over the next four years. CBO would score the funds as budget authority as they become available for obligation. This scoring would lower the request by $0.4 billion in 1992, but raise it by $0.1 billion annually for the following three years.

Mandatory Programs

CBO estimated the interest income of the Exchange Stabilization Fund by applying CBO interest-rate assumptions to the net equity in the

fund. The Administration rounded its estimate to the nearest half billion. CBO estimates higher collections for the Eximbank liquidating account in 1992 and 1993 than does the Administration, and lower collections in 1995 and 1996. The President's estimate for the Public Law 480 liquidating account has no disbursements for loan balances, even though the estimates assume a two-year disbursement pattern for loans.

CHAPTER V

THE ADMINISTRATION'S DOMESTIC PROPOSALS

The President's domestic proposals largely conform to the shape of last fall's budget summit agreement. The summit set multiyear caps on discretionary spending--that is, programs that are subject to the annual appropriation process. CBO gives the Administration a mixed grade on compliance, judging that its proposals meet the budget authority test but violate the outlay caps. Within the domestic discretionary cluster, some programs fare better than others; a few areas (notably science, space, and technology, as well as the administration of justice) are targeted for increases that outstrip the rate of inflation, while many others are trimmed.

The biggest category of domestic spending--mandatory programs--is not subject to dollar caps but is linked to federal government revenues in a pay-as-you-go scheme. The pay-as-you-go rule requires that actions affecting these programs be, at worst, deficit-neutral; of course, it does not bar attempts at further deficit reduction. The President proposes a small amount of additional deficit reduction in these programs, chiefly in Medicare and a handful of other benefit programs. The President proposes selling or leasing some government assets, mainly the naval petroleum reserve in Elk Hills, California, and the Arctic National Wildlife Refuge--proposals that are, in CBO's view, ineligible for credit under the pay-as-you-go rules. Finally, the President's program would lead to modest changes in the federal government's net interest costs.

Chapter I sketched the outlines of the President's proposed budget using the broad categories--discretionary, pay-as-you-go, and other spending--that are central to the new budget enforcement process. This chapter presents a more detailed view of the Administration's proposals for 18 budget functions. Each function contains spending that addresses a particular national need--such as energy, transportation, health, or veterans' programs, to name just a few. (A few func-

tions, such as net interest, do not address national needs as conventionally defined but are included for completeness.) A typical domestic function contains both discretionary and mandatory spending.

The discussion in this chapter focuses on the proposed policy departures in the President's budget, comparing the Administration's request with the CBO baseline projections. The baseline capsulizes the outlook for the budget under current laws and policies--that is, it continues payments under mandatory programs such as Medicare and Social Security while preserving the current amounts (in real dollars) and mix of funding for discretionary programs. Of course, there is nothing sacred about current priorities; the budget records the Administration's own choice of priorities. The discussions also highlight major estimating differences between CBO and the Office of Management and Budget (OMB), differences that may stem from contrasting economic assumptions or from other, technical disagreements.

Most domestic spending functions contain some federal credit activity--that is, programs in which the government lends money directly or guarantees loans extended by private lenders. The Budget Enforcement Act addressed long-standing criticism of the budgetary treatment of federal credit programs. Traditionally, credit activity has been reflected in the budget on a strict cash-flow basis; disbursements and repayments (in the case of direct loans) and fees and defaults (in the case of guaranteed loans) were recorded when they occurred. Critics argued that costs were recorded long after the government had irrevocably committed itself to the transaction, fatally weakening budgetary controls over these programs. Critics also pointed out that cash-flow accounting typically exaggerated the costs of direct loans and understated the costs of guaranteed loans in their initial years--the focus of policymakers' attention.

Responding to these concerns, the Budget Enforcement Act required that the budgetary costs of future credit activity (starting with 1992 obligations) will be reflected on a subsidy basis; that is, the government's entire expected loss (or, in a few cases, gain) on a credit transaction will be recorded when the loan or guarantee is made. And for discretionary programs, the Appropriations Committees must explicitly approve these subsidy costs, weighing them against other con-

tenders for scarce dollars. Throughout this chapter, reference is made to the subsidy cost of credit programs, reflecting the shift in measurement that takes place in 1992. More information about credit reform is contained in CBO's January 1991 report, *The Economic and Budget Outlook: Fiscal Years 1992-1996*.

A brand-new complexity in analyzing the President's budget has cropped up this year because of the existence of multiyear discretionary spending caps. By law and convention, baseline projections include full inflation adjustments for discretionary programs--that is, they preserve the current (fiscal year 1991) appropriation in real dollars. But the discretionary spending caps contained in the Budget Enforcement Act fall short of increases needed to compensate for projected inflation. A major task for the Congress this year will involve deciding how to comply with the caps. Because the caps will force trade-offs among programs, there are literally thousands of ways to comply with them. As the reader combs through the President's proposals for discretionary spending programs, he or she should keep in mind that some savings from the baseline will be necessary solely to conform with the statutory caps.

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	15.9	16.5	17.2	18.1	18.9	19.6
Proposed Changes						
Pay-As-You-Go	0	0	0	0	0	0
Discretionary						
Department of Energy	0	0.2	0.4	0.4	0.4	0.4
National Aeronautics and Space Administration						
Space science R&D	0	0.3	0.9	1.4	1.8	2.0
Space station	0	a	0.2	0.5	0.8	1.2
Space shuttle	0	0.1	a	-0.1	-0.2	-0.2
Space flight R&D	0	0.1	0.3	0.3	0.3	0.5
Other NASA	0	0.1	0.1	a	-0.1	-0.2
National Science Foundation	0	0.1	0.4	0.6	0.8	1.0
Total	0	1.1	2.2	3.1	3.9	4.6
President's 1992 Budget as Estimated by CBO	15.9	17.5	19.5	21.3	22.8	24.2
President's 1992 Budget	15.8	17.5	19.1	20.9	22.4	23.9
CBO Reestimates	0.1	0.1	0.4	0.4	0.4	0.3

a. Less than $50 million.

PROPOSED POLICY CHANGES

As part of the President's initiative to expand the human frontier, the 1992 budget seeks significant increases for function 250. The proposed budget authority for 1992 would be $1.8 billion (11 percent) over the CBO baseline, with a resulting outlay increase of $1.1 billion (6 percent). Spending in the following years would require even larger increases, as both budget authority and outlays would be about $5 billion above the baseline by 1996. By that time, outlays would grow to more than $24 billion, compared with $16 billion in 1991. There are no pay-as-you-go proposals in this function.

All of the programs in the function would share in the spending increase. Budget authority for the National Aeronautics and Space Administration (NASA) would be above the baseline by $1.2 billion (9 percent) in 1992; the National Science Foundation (NSF), by $300 million (13 percent); and the Department of Energy's (DOE's) general science programs, by $350 million (30 percent).

The largest increases would be for the DOE's superconducting super collider (SSC) and NASA's space science and exploration initiatives. Building the SSC would require appropriations that are more than double the amounts in the baseline. The $534 million requested in 1992 would exceed the baseline by nearly $300 million. Budget authority proposed for the following years exceeds the baseline by $400 million each year. The outlays from this authority would be more than $100 million above the baseline in 1992 and $250 million to $450 million higher in each of the following years. Spending for other DOE general science programs would be above the baseline in 1992 and 1993, and equal to or below the baseline after that.

Spending for NASA's space science research and development (R&D), which includes the Mission to Planet Earth and the Mission from Planet Earth programs, would receive an increase in budget authority of nearly $600 million (19 percent) above the baseline in 1992. For 1993 through 1996, the budget authority levels would be $1.2 billion to $2.0 billion above the baseline. Outlays for these programs would be more than $300 million above the baseline in 1992, and $850 million to $2 billion higher in the following years.

Spending for other NASA programs would also be above the baseline. Outlays for the space station would be close to the baseline in 1992, but would be $1.2 billion above it by 1996, when assembly is scheduled to begin. The space shuttle program would start slightly above the baseline, but would slip to $200 million below the baseline in 1995 and 1996; these amounts are intended to support 8 to 10 shuttle flights per year. The President is also proposing additional spending in the space flight R&D program to fund the development of a new launch vehicle. Budget authority for this project would be $250 million (40 percent) above the baseline in 1992 and $2 billion (59 percent) above the baseline over the five years.

Spending for the National Science Foundation would again be raised. For 1992, the NSF appropriation would increase by $300 million (13 percent) over the baseline. Increases would continue in subsequent years, with appropriations rising to $3.9 billion in 1996. All major parts of the NSF budget--research and related activities, education and human resources, and the Antarctic program--would receive increased funding.

CBO REESTIMATES

CBO estimates for outlays are very close to the Administration's figures in 1991 and 1992, but are $300 million to $400 million higher in each of the following years. These reestimates result from differences in projected spending rates for NASA's space flight and research and development programs.

FUNCTION 270: ENERGY

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	3.1	4.4	5.4	5.8	4.9	4.9
Proposed Changes						
Pay-As-You-Go						
Power marketing reforms	0	0	-0.4	-0.4	-0.4	-0.4
Rural electrification	0	b	b	-0.1	-0.1	-0.2
Strategic Petroleum Reserve	0	-0.1	0.1	0	0	0
Subtotal	0	-0.1	-0.3	-0.5	-0.5	-0.6
Discretionary						
Fossil R&D	0	-0.1	-0.2	-0.3	-0.3	-0.3
Strategic Petroleum Reserve	0	b	-0.1	-0.3	-0.3	-0.3
Conservation	0	b	-0.2	-0.2	-0.2	-0.2
Energy supply R&D	0	0.1	0.2	0.2	0.1	b
Other	0	0.1	-0.1	-0.1	-0.1	-0.2
Subtotal	0	b	-0.4	-0.7	-0.9	-1.1
Other Changes						
Loss of Elk Hills and Alaska power marketing receipts[a]	0	0	0.6	0.6	0.6	0.5
Total	0	-0.1	-0.1	-0.6	-0.9	-1.1
President's 1992 Budget as Estimated by CBO	3.1	4.3	5.3	5.2	4.1	3.9
President's 1992 Budget	2.6	3.6	4.6	5.0	3.9	3.4
CBO Reestimates	0.5	0.7	0.7	0.2	0.1	0.5

a. Receipts from the proposed lease of the naval petroleum reserve at Elk Hills, California, and the proposed sale of the Alaska Power Marketing Administration are shown in function 950. Outlays in function 270 would increase relative to the baseline after these proposed asset sales, because the assets would no longer generate direct receipts to the government for oil and electricity sales. For Elk Hills, the government would receive annual royalty payments after 1992; those receipts are also shown in function 950. The table includes the loss of receipts in function 270 under "other changes" because CBO considers these proposals to be asset sales, which should not count in the "pay-as-you-go" category.

b. Less than $50 million.

PROPOSED POLICY CHANGES

The President proposes to increase receipts and cut spending in energy programs, which together would reduce net outlays in function 270 in 1992 by $0.1 billion (or 2 percent) below the baseline. For discretionary energy programs, the President's 1992 request is about $0.5 billion (or 8 percent) below the baseline. Because of lags in spending and in the collection of additional receipts, the effect of the budget proposals accelerates over time, reducing energy outlays by 22 percent below the baseline in 1996. Outlay savings would total $2.8 billion over the 1992-1996 period.

The above savings are net of losses in receipts that would result from the proposed sale of the Alaska Power Marketing Administration (PMA) and from the proposed lease of the naval petroleum reserve at Elk Hills, California (NPR-1). Excluding the outlay effects of these asset transactions, outlay savings would total about $4.4 billion from 1992 through 1996.

Most of the proposed spending reductions are similar or identical to ones included in previous budgets. Net energy spending is expected to increase by more than $1 billion in 1992 and by another $1 billion in 1993, under both the baseline assumptions and the Administration's proposals, because of large planned increases in capital investment by the Tennessee Valley Authority (TVA) and other spending and receipt changes that are not subject to future appropriation actions.

Pay-As-You-Go Policy Changes

Power Marketing Repayment Reforms. The President seeks to establish a fixed schedule for interest and principal repayments to the Treasury made by PMAs. Interest rates would be changed to the Treasury's cost of borrowing at the time each PMA investment went into service. These reforms would increase the price of federally generated hydropower, and would increase offsetting receipts by $1.6 billion for fiscal years 1993 through 1996. CBO expects that the policy cannot be fully implemented until 1993.

Rural Electrification. The President proposes gradually to eliminate direct loans by the Rural Electrification Administration (REA) to electric and telephone cooperatives. The budget includes proposals to reduce by about 70 percent the $698 million loan level for 1992 set in last year's Omnibus Budget Reconciliation Act and to eliminate direct loans by the Federal Financing Bank (FFB). Partial federal guarantees of privately financed loans would replace both the REA and FFB direct loans. Borrowers would pay a fee on the guaranteed portion of new private loans. CBO estimates that these proposals would save about $16 million in lower loan subsidies in 1992, and a total of $0.5 billion in lower subsidies over the 1992-1996 period. About $0.4 billion of that total is in the pay-as-you-go category, because it reflects proposed legislation to cut mandatory loan levels for loans made by the REA. The other savings would accrue from the proposed loan guarantee fees and would be classified as discretionary.

Discretionary Policy Changes

Fossil Energy Research and Development. The President's appropriation request for fossil energy in 1992 is $227 million, 53 percent below the baseline level. Federal spending for fossil energy research and development (R&D) would be reduced by $1.2 billion, or 45 percent, over the 1992-1996 period. The budget would limit fossil spending to "high-risk" R&D; nearly all of the proposed reduction is in funding for coal-related research, which the President says could be supported by the private sector.

Strategic Petroleum Reserve. The President's proposals to discontinue normal purchases of oil for the Strategic Petroleum Reserve (SPR) and to reduce expenditures for SPR facilities would leave outlays 14 percent below baseline levels over the next five years. Because the budget proposes instead to lease oil using existing spending authority, no new appropriations were requested for the SPR oil account.

If the U.S. government negotiates an agreement to lease oil from a foreign oil-producing nation, annual cash payments for a given amount of oil would be considerably lower than the one-time cost of purchasing that oil. The Administration's budget includes only the amount of an-

nual cash payments for "leased oil" as outlays. In contrast, CBO believes that the purchase value of the oil should be counted as outlays because the transaction is effectively equivalent to purchasing the oil over time. Hence, CBO estimates SPR oil outlays based on equivalent oil purchases as the reserve is filled. The CBO reestimate of outlays for the SPR oil account is therefore more than double the President's estimate for the 1992-1996 period. Because the President does not request any new funds for SPR oil, however, the policy would still represent a significant decrease from the baseline. CBO estimates that the cut in SPR oil outlays would be $0.1 billion in 1992 and $0.9 billion over the next five years, or about 50 percent below baseline spending. (The cut would be about 80 percent using the Administration's estimates of outlays for leased oil.)

Conservation. For 1992, the President requests $326 million in appropriations for energy conservation, a 37 percent cut relative to the baseline. The request calls for a 21 percent increase over the 1991 appropriation for conservation R&D, but that increase would be more than offset by nearly eliminating grants to states for home weatherization and other conservation programs.

Energy Supply Research and Development. The budget includes 1992 funding of $2.8 billion for energy supply R&D, an increase of $189 million relative to the baseline. The five-year outlay increase of $480 million is 4 percent over baseline levels. Most of the increase would apply to environmental restoration and nuclear research activities.

Other. The budget also includes proposals to establish a uranium enrichment revolving fund (instead of relying on annual appropriations), and to cancel advance appropriations of $600 million for round five of the Clean Coal Technology Program. CBO estimates that these proposals would not have a significant budgetary impact in 1992.

Other Policy Changes

Naval Petroleum Reserves. The President proposes to lease the government's naval petroleum reserve at Elk Hills, California, at the end of fiscal year 1992. CBO believes this would be an asset sale, and thus

should not be included for pay-as-you-go scoring. Receipts for this transaction appear in budget function 950 and are estimated to total $2.2 billion over the 1992-1996 period, including both bonus bid receipts and federal royalties. These savings would be partially offset by an increase in outlays in function 270, because the government would no longer be collecting receipts from selling oil and gas produced at Elk Hills. In 1993, the proposed asset sale would result in a loss of receipts of $0.6 billion, with similar losses in subsequent years. Over the five-year period, net outlays in function 270 would increase, relative to the baseline, by $1.5 billion because of the sale of NPR lease rights.

CBO REESTIMATES

CBO's estimates of net outlays for function 270 under the President's budget proposals are above the Administration's estimates by $0.5 billion in 1991, $0.7 billion in 1992, $0.7 billion in 1993, and by smaller amounts in subsequent years.

Pay-As-You-Go Reestimates

The largest estimating difference involves the reform of PMA repayment terms. The budget assumes that PMA electric rates could be increased in time to collect an additional $0.4 billion in power receipts for 1992. CBO estimates that such a large increase would require more time to implement and that additional receipts could not be collected until 1993.

Because of the Gulf war and uncertainty in world oil markets, the President proposes to delay replacing the SPR oil sold late last year to test the reserve's marketing and distribution procedures. While the budget assumes a shift in $123 million of spending from fiscal year 1991 to fiscal years 1992 and 1993, CBO's reestimate assumes that none of the oil sold last year would be replaced this year under current law, and that the President's proposal would actually shift all such spending from 1992 to 1993.

Other Reestimates

CBO's 1991 estimates include receipts totaling about $475 million for two recent sales of SPR oil and refunds of nuclear waste fees. The President's 1991 outlay estimates do not include these transactions.

CBO reestimates for 1992 include higher spending for acquisition of oil for the SPR, lower receipts for the Western Area PMA, and higher spending by the TVA than assumed in the President's budget. The SPR reestimate reflects CBO's budgetary treatment of "oil leases" as purchases (see SPR discussion under Discretionary Policy Changes, above).

In 1993, CBO's treatment of proposed SPR oil leases as purchases accounts for $0.3 billion of the budget reestimates. Other 1993 reestimates include lower Western Area PMA receipts, and higher outlays for disbursing previously approved loans to rural electric cooperatives.

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	18.8	20.1	21.0	21.8	22.8	23.6
Proposed Changes						
Pay-As-You-Go						
Recreation and EPA user fees	0	a	a	a	a	a
Discretionary						
Water resources	a	-0.1	-0.3	-0.5	-0.8	-1.0
Conservation and land management	0	-0.1	-0.1	-0.3	-0.6	-0.9
Recreational resources	0	a	-0.1	-0.2	-0.3	-0.4
Pollution control and abatement	0	0.1	-0.1	-0.4	-1.0	-1.7
Other natural resources	0	a	-0.1	-0.3	-0.4	-0.6
Subtotal	a	-0.1	-0.7	-1.7	-3.2	-4.7
Total	a	-0.2	-0.7	-1.7	-3.2	-4.7
President's 1992 Budget as Estimated by CBO	18.8	20.0	20.3	20.1	19.7	19.0
President's 1992 Budget	18.8	19.5	20.0	20.1	19.6	18.9
CBO Reestimates	a	0.4	0.2	a	0.1	0.1

a. Less than $50 million.

PROPOSED POLICY CHANGES

The President's proposals for natural resource and environmental programs would reduce outlays below the CBO baseline by about $160 million in 1992 and by about $10 billion over the 1992-1996 period. Nearly all of the savings would result from proposed cuts in discretionary appropriations.

Pay-As-You-Go Policy Changes

The President's budget includes proposed new recreation user fees for the Forest Service and the U.S. Army Corps of Engineers, and additional fees for reregistering pesticides to be collected by the Environmental Protection Agency (EPA). The President's proposals would yield additional offsetting receipts of about $27.5 million in 1992, rising to $33 million a year thereafter. For 1992, the President proposes to spend $5.6 million of the new receipts for related recreational activities. In addition, 25 percent of the new Forest Service fees--about $2.5 million--would be spent for increased payments to states, as required by law. Budget authority and outlays for such payments are included in function 800.

Discretionary Policy Changes

The President is requesting 1992 appropriations of $20.1 billion for discretionary natural resource and environmental programs, $0.6 billion (or 2.9 percent) above the 1991 funding and 2.9 percent below the CBO baseline level of $20.7 billion. Outlay savings in 1992 would be about $130 million, or less than 1 percent, relative to the baseline.

Water Resources. The President is requesting 1992 appropriations of $4.6 billion for discretionary water resources programs. This funding level is 3 percent ($145 million) below the CBO baseline in 1992, resulting in outlay savings of $118 million. This amount reflects decreases from baseline budget authority of 11 percent ($105 million) for the Bureau of Reclamation and 22 percent ($48 million) for the Soil Conservation Service. The request for the Army Corps of Engineers' activities to develop water resources is near the baseline level for 1992 and includes funds to begin five new construction projects and to increase environmental restoration activities.

Conservation and Land Management. The President's 1992 appropriation request for conservation and land management totals $4.7 billion, which is $97 million (or 2 percent) below the baseline. Outlays would be $60 million below the baseline. The proposal reflects a 3 percent reduction in funding for the Forest Service, relative to the baseline, but

increases of 6 percent for the Bureau of Land Management (BLM) and 1 percent for land conservation activities carried out by the Department of Agriculture.

The Forest Service would receive a 5 percent ($121 million) increase over 1991. Most of the increase results from the $228 million in funding proposed for specified tree-planting and recreational improvement programs--up from $70 million in 1991. Proposed funding for other Forest Service activities is $37 million below 1991 levels and would save $229 million relative to the baseline in 1992.

The BLM would receive a 14 percent increase ($109 million) over 1991 levels. Nearly all of the proposed increase is funding for firefighting and for certain land acquisition, wildlife, and recreational activities. In addition, the President proposes to collect holding fees for hard-rock mining claims, which would increase receipts by $40 million in 1992 and by $35 million annually thereafter.

Recreational Resources. The President's 1992 request for discretionary funding of recreational programs is $2.0 billion, about 4 percent less than the 1991 funding level of $2.1 billion and 10 percent below the CBO baseline. Outlay savings would total about $16 million (or less than 1 percent) for the budget year. Most of the decrease proposed for recreational programs would be borne by multiyear projects and grants to acquire recreational lands (cut by $37 million, or 11 percent, below the baseline) and to construct or repair recreational facilities (cut by $234 million, or 59 percent). These two proposed cuts would save about $51 million in 1992, but would be offset partially by increases in resource management and protection activities proposed as part of the President's America the Beautiful initiative. The net increase proposed for the annual operating and grant budgets of recreational agencies is about $43 million (or less than 3 percent) above the CBO baseline.

Pollution Control and Abatement. The President's 1992 budget for environmental programs results in outlays that are $64 million, or 1 percent, above the baseline. The budget includes 1992 funding increases above baseline levels for a number of activities of the Environmental Protection Agency--including cleanup of hazardous wastes

(superfund and leaking underground storage tanks), research and development, and salaries and expenses. Over the 1992-1996 period, however, outlays would fall about $3.2 billion, or 9 percent, below the baseline. The proposed phase-out of the grant program for construction of wastewater treatment facilities would produce most of these savings--$2.5 billion over five years. Appropriations for these grants would drop from $2.1 billion in 1991 to $1.9 billion in 1992 and reach zero in 1995, consistent with the authorizations in the Clean Water Act.

Other Natural Resources. The President's proposals for other natural resources would lower spending by $1.4 billion (11 percent) relative to the CBO baseline through 1996. Spending would be close to the baseline in 1992, but would fall below in each of the following years. The 1992 budget authority for the National Oceanic and Atmospheric Administration (NOAA) would be $67 million (4 percent) above the baseline, but the U.S. Geological Survey (USGS) and the Bureau of Mines (BOM) would have their budget authority cut to levels $48 million (8 percent) and $31 million (17 percent) below the baseline, respectively. In total, outlays over the five years would be below baseline levels by $0.7 billion (8 percent) for NOAA; by $0.5 billion (16 percent) for USGS; and by $0.2 billion (22 percent) for BOM.

CBO REESTIMATES

CBO's estimates of outlays are above the Administration's estimates by $0.4 billion in 1992 and by smaller amounts in subsequent years, reflecting different spending rates for many accounts, primarily in conservation and land management and pollution control programs.

FUNCTION 350: AGRICULTURE

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	15.4	17.2	15.8	14.5	13.6	13.0
Proposed Changes						
Pay-As-You-Go						
Crop insurance	0	a	-0.1	-0.1	-0.1	-0.1
Commodity Credit Corporation	0	a	-0.1	-0.1	-0.1	-0.1
Other	0	a	a	a	a	a
Subtotal	0	-0.1	-0.2	-0.2	-0.2	-0.2
Discretionary						
Agricultural Credit Insurance Program	0	-0.2	-0.2	-0.2	-0.2	-0.2
Administrative expenses for crop insurance	0	a	-0.1	-0.1	-0.1	-0.1
CCC Export Enhancement Program	0.3	-0.3	0.1	0	0	0
Other	0.1	a	-0.1	-0.2	-0.3	-0.4
Subtotal	0.4	-0.5	-0.3	-0.5	-0.6	-0.7
Total	0.4	-0.5	-0.5	-0.7	-0.8	-0.9
President's 1992 Budget as Estimated by CBO	15.8	16.6	15.2	13.8	12.8	12.1
President's 1992 Budget	15.9	15.3	14.2	13.5	12.1	12.6
CBO Reestimates	-0.1	1.3	1.1	0.3	0.7	-0.5

a. Less than $50 million.

PROPOSED POLICY CHANGES

CBO estimates that proposed changes by the Administration would save $0.5 billion in 1992 and $3.5 billion over the 1992-1996 period relative to the CBO baseline. Spending during this period would average about 5 percent below baseline levels.

Pay-As-You-Go Policy Changes

Crop Insurance. This year, the Administration is proposing modifications to the crop insurance program that are less drastic than last year's plan to terminate crop insurance and replace it with a permanent disaster assistance program. The crop insurance premium subsidy would be reduced from 30 percent of each producer's premium to 15 percent, effective for the 1992 crop year. The Administration believes that large premium subsidies encourage farmers to produce on marginal land and thus raise the costs of crop insurance. CBO estimates savings of $555 million over the 1992-1996 period from halving the premium subsidy. Of that amount, only about $25 million would occur in 1992, because the bulk of indemnity payments for the 1992 crop year are expected to be made in fiscal year 1993.

Commodity Credit Corporation (CCC). This year's budget proposes a payment limit that is a variant of those rejected by the Congress during the 1990 farm bill deliberations. The Administration would exclude from CCC program benefits any producers who earn more than $125,000 per year in income from off-farm sources. This change would take effect with the 1992 crops. The Administration argues that only relatively well-off individuals who are less in need of government payments would be affected by this proposal. CBO estimates this proposal would reduce deficiency payments by about $75 million per year once the program is fully in effect and would save $325 million over the 1992-1996 period.

Other. The budget also includes proposed user fees for the Federal Grain Inspection Service and the Agricultural Marketing Service. Together they would bring in receipts of $12 million per year beginning in 1992. In addition, the Administration proposes to eliminate mandatory payments to states of almost $3 million per year by the Cooperative State Research Service.

Discretionary Policy Changes

Agricultural Credit Insurance Program. The President's requested subsidy appropriation for certain direct loan programs would be below

baseline levels. This request would have the largest impact on the emergency disaster loan program. Although the disaster loan limit is $600 million for 1991 and borrowers are expected to use $100 million of this authority, the budget includes a subsidy appropriation sufficient, by Administration estimates, to fund only $25 million in disaster loans in 1992. Including administrative expenses, Agricultural Credit Insurance Fund (ACIF) outlays would be below the baseline by $0.2 billion in 1992 and by $0.9 billion over the 1992-1996 period.

Administrative Expenses for Crop Insurance. The President's budget would reduce budget authority for crop insurance administrative expenses from an estimated level of $340 million in 1991 to $298 million in 1992 and keep it about at that level in later years. Part of this reduction is related to the proposed cut in premium subsidies beginning with the 1992 crops, which is likely to reduce farmers' purchases of crop insurance. The government reimburses private insurance companies for selling and servicing crop insurance policies. With fewer purchases of crop insurance, reimbursements to companies would decrease. Overall, outlay savings for administrative expenses would total $32 million in 1992 and $412 million over the 1992-1996 period.

Commodity Credit Corporation. The Administration proposes language in the supplemental appropriation bill that would effectively eliminate the current ceiling of $425 million on funding for the Export Enhancement Program (EEP). EEP subsidy payments are made to exporters, allowing them to sell U.S. commodities at prices below U.S. market prices. Such payments are normally made in the form of generic commodity certificates, which can be redeemed for commodities owned by the government. The Administration uses EEP subsidies to counter export subsidies of the European Community; this year the competition is mainly in wheat. Wheat prices have weakened considerably in recent months because bumper crops around the world have generated intense competition among exporters for sales. The Administration believes that $900 million in 1991 EEP subsidies is necessary to keep U.S. wheat exports competitive.

Higher EEP subsidies would affect government expenditures on price supports in a number of ways. The additional $475 million in generic certificates would raise outlays, mainly in 1991, because CBO

expects they would be redeemed for government-owned corn that would otherwise be sold for cash. Higher domestic wheat prices caused by higher subsidized exports would reduce wheat deficiency payments in 1992. However, deficiency payments would rise slightly in 1993 because CBO expects the Secretary of Agriculture to reduce the size of future acreage reduction programs in response to lower domestic supplies of wheat. Taking all these effects into account, CBO estimates that this proposal would raise CCC outlays by about $120 million over the 1991-1993 period.

Other Agriculture Programs. The Administration is requesting 1992 budget authority for other agriculture programs at about the 1991 level. The President's proposals would result in net outlay savings of about $0.1 billion in 1993, $0.2 billion in 1994, $0.3 billion in 1995, and $0.4 billion in 1996 compared with the CBO baseline. Areas slated for decreases relative to the baseline after 1992 include the Extension Service, the Agricultural Research Service, the Animal Plant and Health Inspection Service, and administrative expenses of the Emergency Food Assistance Program; increased funding is proposed for the Cooperative State Research Service.

CBO REESTIMATES

CBO outlay estimates for agriculture programs are virtually the same as the Administration's in 1991, but are significantly higher than the Administration's in most other years. In 1991, CBO estimates that the EEP funding proposal would raise CCC costs by $320 million, whereas the Administration asserts that it would have no budgetary impact. Downward reestimates for other aspects of CCC activities offset the EEP reestimate in 1991.

CBO projects that agriculture outlays in 1992 and 1993 will be higher than those projected by the Administration, mainly because of higher expected outlays in CCC programs and the ACIF loan program. CBO's estimate of CCC outlays is about $1.0 billion higher in 1992, largely because CBO expects more farmers to participate in the 1991 crop programs and thus deficiency payments to be higher than the Administration projects. CBO expects outlays for feed grains to be

about $0.6 billion higher in 1993 because of lower expected market prices. ACIF outlays are estimated to be $0.5 billion higher in 1992 and $0.4 billion higher in 1993, primarily because CBO expects farmers' loan repayments to be lower than those the Administration projects.

In 1994 through 1996, CBO projects higher spending in CCC and crop insurance programs and lower spending in ACIF than estimated by the Administration. The lower ACIF spending reflects CBO's lower expected interest payments to the Treasury. Because these interest payments are intragovernmental, the reestimates would be offset by corresponding entries in function 900 amounting to $0.3 billion in 1994, $0.9 billion in 1995, and $1.2 billion in 1996. CBO projects CCC outlays to average $1.0 billion higher per year than those projected by the Administration because of weaker expected demand and prices for the major crops. Crop insurance outlays are projected to average $0.3 billion per year higher during this period because CBO expects the historical loss ratio (the ratio of indemnity payments to total premiums) to continue rather than to improve sharply as the Administration projects.

FUNCTION 370: COMMERCE AND HOUSING CREDIT

PROPOSED MAJOR SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	112.8	104.8	55.8	29.4	-42.7	-37.6
Proposed Changes						
Pay-As-You-Go						
Federal Housing Administration[b]	0	-0.6	-0.7	-0.8	-0.9	-0.9
Other	0	a	a	a	a	a
Subtotal	0	-0.7	-0.7	-0.8	-0.9	-0.9
Discretionary						
Rural Housing Insurance Fund	0	a	-0.2	-0.2	-0.3	-0.3
Payment to the Postal Service	0	-0.3	-0.3	-0.3	-0.4	-0.4
SBA business loans	0	-0.2	-0.2	-0.2	-0.2	-0.3
Other	0	-0.4	-0.4	-0.5	-0.6	-0.6
Subtotal	0	-0.9	-1.1	-1.3	-1.5	-1.6
Other Changes						
Postal Service (Off-budget)	0	0.2	0.2	0.1	0	0
Total	0	-1.4	-1.7	-2.1	-2.3	-2.5
President's 1992 Budget as Estimated by CBO	112.8	103.4	54.1	27.3	-45.0	-40.1

a. Less than $50 million.

b. There are no net savings from this proposal. These amounts are exactly offset in function 900.

PROPOSED POLICY CHANGES

Under the Administration's budget, spending for commerce and housing credit programs would be below the baseline in each year during the 1992-1996 period. Savings would total $1.4 billion in 1992 and about $10 billion over the five years. Only about $6 billion would be real savings. The remainder represents changes in intragovernmental payments, which have no net effect on the federal deficit.

Under both baseline assumptions and Administration policy, total spending in this function is projected to plummet from $113 billion in 1991 to less than $105 billion in 1992, to about $55 billion in 1993, and to net receipts of more than $40 billion in 1995 and 1996. This dramatic decline in outlays will occur primarily because spending for resolving failed savings and loans is expected to peak in 1992 at about $94 billion, and the government will then begin to collect increasing amounts of receipts from disposing of assets. CBO also estimates that net outlays of the Bank Insurance fund will decline substantially from the 1991 level of close to $13 billion.

Pay-As-You-Go Policy Changes

Federal Housing Administration (FHA). The Administration would cancel about $7 billion in outstanding debt owed to the Treasury by the FHA's General and Special Risk Insurance Funds because there is little likelihood that the funds will ever have the resources to retire the debt. This action would not change the federal deficit, nor would it have any net effect on pay-as-you-go scoring, since lower outlays in this function ($3.9 billion over five years) would be exactly offset by reduced interest receipts in function 900.

Discretionary Policy Changes

Rural Housing Insurance Fund (RHIF). The President's budget would significantly alter the means by which the Farmers Home Administration provides rural housing assistance. Currently, most of this assistance is in the form of subsidized direct mortgage loans to low-income households or to developers of low-income rental housing. For 1992, the President proposes to replace some of these direct loans with subsidized and unsubsidized guaranteed private loans. The budget includes a 1992 appropriation request of about $0.4 billion to cover RHIF subsidy costs, $0.3 billion less than the CBO baseline projection. The Administration intends the 1992 subsidy request to support about $1.6 billion in single-family and multifamily loans, of which $0.7 billion would be guaranteed loans. For 1991, the Congress provided about $1.9 billion for direct loans and $0.1 billion in guaranteed loans.

The loan activity proposed by the President would provide single-family mortgage assistance to an estimated 23,000 households and fund about 8,500 rental units. By comparison, the 1991 budget could assist about 26,100 homeowners and finance 15,700 rental units. The program changes included in the 1992 rural housing budget are very similar to those proposed last year.

Under the Administration's plan, low-income borrowers with guaranteed loans would receive federal subsidies that would reduce effective interest rates on their loans by an estimated four percentage points. Moderate-income borrowers with loan guarantees would receive no assistance beyond the guarantee. The President's RHIF proposals would reduce outlays by less than $0.1 billion in 1992 and by about $1.0 billion over the 1992-1996 period, relative to the baseline.

The Administration also proposes a rental voucher program for rural areas. The program would be similar to that operated by the Department of Housing and Urban Development. The $190 million requested would support more than 7,000 units for five years and would partially offset the proposed cuts in loan authority. This program would be included in function 600.

Payment to the Postal Service. The President is proposing to terminate or restrict certain preferred postage rates, to increase the rates for most preferred mailers, and to eliminate the portion of the appropriated subsidy that covers these reduced postage rates. Relative to the CBO baseline, these changes would save more than $0.3 billion in 1992 and more than $1.7 billion over the 1992-1996 period.

Small Business Administration (SBA) Business Loans. About $1.1 billion of the five-year savings relative to the CBO baseline is achieved through reduced loan subsidy appropriations for the SBA's business loan programs. The Administration proposes to convert all SBA direct lending to guaranteed lending, except for certain direct loans to minority-owned firms, and to increase the fees that are charged on several types of guaranteed loans. The 1992 subsidy appropriation would be $56 million, well below the CBO baseline level of $261 million. A total of $71 million in direct loan authority was provided for 1991, and SBA's share of loan guarantees is estimated to be $4.1 billion

this year. The Administration's 1992 budget would allow for $5 million in direct loans and $3.8 billion in guaranteed loans. This proposal is similar to proposals included in previous budgets.

Other. The budget includes additional fees for the registration of securities by the Securities and Exchange Commission (SEC) and for services provided by the Federal Communications Commission (FCC). The Administration would also establish a new transaction fee to be collected by the Commodity Futures Trading Commission. These three fees are expected to bring in about $0.2 billion a year in additional receipts, but some of this amount would be used to finance increased spending by these regulatory agencies. The Administration also proposes spending reductions below the baseline for periodic censuses, reflecting the normal phasing down from the decennial census, as well as for the Export Administration and SBA administrative expenses.

Other Changes

Postal Service (Off-Budget). The President is proposing to increase Postal Service payments to the Civil Service Retirement Fund (see function 950) and to the Federal Employees Health Benefits Fund (see function 550). These increases, totaling $0.2 billion annually and $1.0 billion over the next five years, are intragovernmental transactions and would be reflected as offsetting receipts in functions 950 and 550, respectively. To recover these costs, the Postal Service is likely to increase postal rates, resulting in net savings to the federal government. The Postal Service surplus or deficit, which is off-budget, would be unaffected once the additional costs are covered by higher rates. The savings would appear in the on-budget retirement and health benefits funds.

In total, the proposals in the budget affecting the Postal Service would result in reduced appropriations of $1.7 billion (in function 370) and increased receipts of $1.0 billion (in functions 950 and 550), or a net spending reduction of about $2.7 billion (on-budget) relative to the baseline over the five-year period. Covering the full cost of these proposals would necessitate an additional rate increase above the 12 percent hike that CBO assumes would occur in 1994. However, the Postal

Service could not raise its rates to recover the additional costs for payments to the Civil Service Retirement and Federal Employees Health Benefits funds until the next overall rate increase, which CBO assumes would occur in February 1994. As a result, net outlays of the Postal Service would increase by $0.5 billion over the 1992-1994 period. This amount would not be counted for pay-as-you-go scoring.

CBO REESTIMATES

CBO estimates that outlays for this function will be $6.7 billion less in 1991, but $10.6 billion more in 1992 and $43 billion more over the 1993-1996 period than the Administration projects. Most of these variations are attributable to differing estimates for spending by the Resolution Trust Corporation (RTC).

Pay-As-You-Go Reestimates

Federal Housing Administration. The Administration's budget estimates include savings of $0.6 billion in 1992 and almost $5 billion over the 1992-1996 period for the liquidating account of the General and Special Risk Insurance Funds. The Administration asserts that increased appropriations for administrative expenses and for programs of the Flexible Subsidy Fund that provide subsidies to troubled FHA-insured projects would reduce defaults covered by these funds. CBO's reestimate includes no savings because the relationship between the amount appropriated for these programs and the amount saved by FHA is very speculative. Even if there were savings, CBO believes it would be inappropriate to count them for pay-as-you-go purposes because they would be indirect effects of discretionary appropriations and not the result of changes in direct spending legislation.

Other Reestimates

Resolution Trust Corporation. CBO expects that about 500 more savings and loan institutions will become insolvent through 1995 than the Administration estimates. Under CBO's baseline projections, the

RTC's cumulative losses will be about $155 billion, compared with the Administration's estimate of about $130 billion. Both the Administration and CBO treat the funds necessary to meet the government's commitment to insure deposits as mandatory, and both assume that sufficient funds will be provided to allow the RTC to resolve the inventory of failed thrifts. CBO expects that the RTC will need to continue closing or merging sick thrifts through 1994, rather than completing its caseload by 1993, as does the Administration. As a result, the most significant difference in outlays over the 1992-1996 period occurs in 1994, when CBO expects that net outlays will exceed the Administration's estimate by $74 billion.

CBO's estimates for net outlays in 1992 and 1993 are higher than those estimated in the President's budget by $14 billion and $13 billion, respectively, largely as a result of the RTC's need to acquire more assets when closing failed thrifts. This additional spending for working capital is expected to generate future offsetting collections for the agency, when assets are sold. Thus, CBO's estimate of net outlays in 1995 and 1996 is lower than the Administration's by $2 billion and $11 billion, respectively.

FSLIC Resolution Fund. This fund is charged with paying off the obligations incurred by the Federal Savings and Loan Insurance Corporation. Disbursements from the fund mostly cover interest and principal payments on notes, and cash to maintain yields or pay capital losses on assets purchased from failed thrifts. The Congress appropriated $22 billion in 1991 for the fund to renegotiate the assistance agreements that were issued before 1989 in an effort to reduce the government's long-term costs. CBO's outlay estimates are higher than the Administration's by $1.1 billion over the 1991-1996 period, largely reflecting differing assumptions about the size and timing of payments for past losses, which are highly uncertain.

Bank Insurance Fund (BIF). CBO's estimate of outlays from the fund is lower than the Administration's by $5.6 billion for 1992 and by $37.9 billion over the 1992-1996 period. These differences result from varying assumptions about losses that will be incurred by the fund and about actions that will be taken by the Federal Deposit Insurance Corporation (FDIC), which administers the fund. The Administration

projects that the fund will experience unprecedented losses throughout the five-year period, thereby incurring substantial outlays for resolving failing banks. In contrast, CBO projects that losses will decline, beginning in 1994, to levels experienced in the late 1980s. CBO also assumes that the FDIC will steadily increase the rate of premiums assessed on bank deposits to 30 cents per $100 of assessable deposits by January 1993. These higher premiums would partially offset outlays.

Federal Housing Administration. CBO estimates that outlays in the liquidating account of the General and Special Risk Insurance Funds will be lower than the Administration estimates in 1992 and each of the following years. These differences result primarily from varying estimates of claims from insurance commitments issued before 1992. In contrast, CBO's estimate of outlays in the Mutual Mortgage Insurance Fund is higher than the Administration's in each year. These reestimates stem mostly from CBO's lower estimate of receipts from the sale of FHA-owned property. Over the 1992-1996 period, CBO's estimate of FHA outlays is $1.3 billion lower than the Administration's.

Postal Service. CBO estimates of Postal Service outlays are different from the Administration's primarily because the budget does not reflect the large year-to-year swings in net operating income that result from periodic rate increases, and because CBO's assumptions regarding the wage contract are different from the Administration's. CBO's estimate of Postal Service outlays is about $0.9 billion higher than the Administration's in 1992 and about $1.2 billion lower over the 1992-1996 period.

Other. The remaining reestimates in this function result primarily from lower projected outlays for RHIF (reflecting lower interest payments to the Treasury), lower outlays for the Government National Mortgage Association (reflecting differing subsidy estimates), and higher outlays for the Savings Association Insurance Fund (reflecting projected 1995 and 1996 losses at historical levels).

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 370 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	119.5	92.8	50.4	-32.8	-37.7	-26.8
CBO Reestimates						
Pay-As-You-Go Proposals						
Federal Housing Administration	0	0.6	1.1	1.0	0.9	1.3
Other	0	a	a	a	a	a
Subtotal	0	0.6	1.1	1.0	0.9	1.3
Other						
Resolution Trust Corporation	-4.6	13.9	12.7	73.6	-2.3	-11.0
FSLIC Resolution Fund	-0.2	0.7	0.2	0.4	-0.4	0.4
Bank Insurance Fund	-3.3	-5.6	-10.3	-10.4	-5.0	-6.5
Federal Housing Administration	0.9	0.6	-0.4	-0.4	-0.3	-0.8
Postal Service (Off-budget)	0.3	0.9	0.8	-2.0	-1.8	0.8
Other	0.1	-0.6	-0.5	-2.1	1.7	2.5
Subtotal	-6.7	10.0	2.6	59.1	-8.2	-14.7
Total	-6.7	10.6	3.7	60.1	-7.3	-13.3
President's 1992 Budget as Estimated by CBO	112.8	103.4	54.1	27.3	-45.0	-40.1

a. Less than $50 million.

FUNCTION 400: TRANSPORTATION

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	31.3	33.7	35.0	36.4	38.0	39.6
Proposed Changes						
Pay-As-You-Go	0	0	0	0	0	0
Discretionary						
Federal-aid highways	a	-0.1	-0.4	-0.8	-0.9	-0.3
Miscellaneous highway demonstration projects	0	-0.1	-0.2	-0.4	-0.4	-0.5
Mass transit programs	0	-0.3	-0.3	-0.2	-0.1	-0.1
Grants to Amtrak	0	-0.2	-0.1	-0.2	-0.3	-0.3
Northeast Corridor Improvement Program	0	a	-0.1	-0.2	-0.2	-0.2
FAA operations	0	0.1	-0.1	-0.3	-0.4	-0.7
FAA facilities and equipment	0	0.1	0.3	0.4	0.3	0.2
USCG operating expenses	0	0.3	0.3	0.2	0.1	a
Other	0	a	a	a	-0.1	-0.3
Total	a	-0.3	-0.7	-1.4	-2.0	-2.2
President's 1992 Budget as Estimated by CBO	31.3	33.4	34.3	35.0	35.9	37.5
President's 1992 Budget	31.5	32.7	34.7	35.4	35.5	37.1
CBO Reestimates	-0.2	0.7	-0.3	-0.4	0.4	0.3

a. Less than $50 million.

PROPOSED POLICY CHANGES

Outlays for transportation programs under the Administration's policies would be $0.3 billion lower than the CBO baseline in 1992, even though the proposed budget authority for the function is $1.4 billion above the baseline. Proposed changes in this function would achieve savings by holding down obligations for the highway programs and by shifting resources among ground transportation programs to those with slower rates of spending. These savings would be only partially offset by spending increases for aviation and Coast Guard programs. There are no pay-as-you-go proposals in this function.

Ground Transportation. Reductions in spending for ground transportation, particularly for highway programs, would account for most of the savings in this function. The budget includes the contract authority and obligation limitations that the Administration proposed for inclusion in the highway reauthorization bill, which will cover fiscal years 1992 through 1996. CBO estimates that outlays for federal-aid highways during this period would total about $81.7 billion, compared with $84.2 billion under the baseline--a savings of $2.5 billion. Although the budget includes obligation ceilings for federal-aid highways that are above the CBO baseline in each of the five years, savings would still accrue because the budget eliminates most programs that are currently exempt from the ceiling.

The Administration's reauthorization proposal includes a number of changes in federal highway policy. These include creating new categories of programs, changing the share of costs the federal government pays, allowing more toll roads, and expanding the research program.

Under the Administration's proposal, total obligations for federal-aid highways in 1992 would be $16.5 billion--$0.3 billion above the estimated 1991 level, but $0.2 billion below the CBO baseline. Total obligations would remain below the baseline in each of the five years except 1996. Outlay savings, relative to the CBO baseline, would increase from $0.1 billion in 1992 to $0.9 billion in 1995 before declining to $0.3 billion in 1996. In addition, the elimination of miscellaneous appropriated highway demonstration projects would reduce 1992 budget authority by $0.5 billion--saving $0.1 billion in outlays in that year and $1.6 billion through 1996.

The Administration also requests language in a supplemental appropriation for fiscal year 1991 that would allow the Department of Transportation to restrict the redistribution of obligational authority for federal-aid highways in the last two months of this year, thereby reducing 1991 obligations by about $0.2 billion. This action would contribute significantly to the outlay savings noted above for this program in 1992.

The requested 1992 budget authority for mass transit programs is $3.3 billion--about the same as the 1991 level, but $0.1 billion below

the CBO baseline. The budget includes substantial changes to the structure of federal mass transit programs, including shifts in funding from operating to capital assistance and from discretionary to formula grants. In addition, the Administration would finance most transit spending from the transit account of the Highway Trust Fund. In total, these proposals would result in outlay savings relative to the baseline of $0.3 billion, or about 7 percent, in 1992 and $1 billion over the 1992-1996 period.

Another proposal would reduce funding for Amtrak subsidies by $0.2 billion below the baseline in 1992 and would delay the availability of 1992 capital assistance until July of that year, thus reducing 1992 outlays by $0.2 billion below the baseline. This proposal contrasts with all recent Presidential budgets, which have sought to eliminate these subsidies. The Administration also would eliminate the Northeast Corridor Improvement Program, which provides funds for Amtrak capital improvements ($0.2 billion in 1991), thereby further reducing outlays by $37 million below the baseline in 1992. Over the 1992-1996 period, cuts in these rail programs would reduce outlays by $2 billion relative to the baseline.

Air Transportation. Aviation is once again targeted for significant funding increases. The President's proposed spending authority for the Federal Aviation Administration (FAA) in 1992 is $1.1 billion, or 14 percent, above the 1991 level and $0.6 billion (7 percent) above the CBO baseline. The proposed funding increases would lift FAA outlays above the baseline by $0.2 billion in 1992. Most of this increase would be used to continue modernizing and improving the air traffic control system. Spending authority for FAA facilities and equipment would be increased from $2.1 billion in 1991 to $2.7 billion in 1992, an increase of almost 30 percent and more than $500 million above the CBO baseline. In addition, proposed increases for FAA operations would be used to hire more air traffic controllers, aviation safety inspectors, civil aviation security specialists, and field maintenance technicians. The Administration proposes to derive 75 percent of the funds for the FAA from the Airport and Airway Trust Fund over the 1992-1996 period, the same share as in 1991.

Water Transportation. The President proposes 1992 appropriations for discretionary water transportation programs of $3.2 billion, or nearly $520 million (20 percent) above the 1991 level. The proposed funding level is $355 million (about 13 percent) above the $2.8 billion for water transportation in the CBO baseline and would result in additional 1992 outlays of $301 million.

Most of the requested increase reflects a shift of funding for U.S. Coast Guard (USCG) operations from other budget functions. Specifically, the President's proposed increase in budget authority for USCG operating expenses is about $380 million (18 percent) over the baseline. This increase would be partially offset by eliminating funds made available from Department of Defense appropriations--$295 million in 1991--as well as by significantly reducing the share of operating expenses appropriated from the Oil Spill Liability Trust Fund. Taking into account these other financing sources, the proposed 1992 budget authority for USCG operations is $49 million (2 percent) above the CBO baseline and $205 million (9 percent) larger than the 1991 appropriation.

CBO REESTIMATES

CBO estimates that spending under the President's policies will be $0.2 billion lower than the Administration estimates in 1991 and $0.7 billion higher in 1992. In the case of federal-aid highways, CBO estimates that 1991 obligations for programs exempt from the obligation ceiling will be $0.5 billion greater than estimated by the Administration. Most of the impact of this difference on outlays occurs in 1992. In addition, CBO estimates that a greater proportion of federal-aid highways obligations under the 1992 ceiling will occur in the first part of the year, resulting in higher estimated outlays in that year but lower outlays in the following two years. Other reestimates are relatively small and generally result from different assumptions about spending rates.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	7.7	6.7	6.5	6.5	6.7	6.8
Proposed Changes						
Pay-As-You-Go	0	0	0	0	0	0
Discretionary						
Community development	-0.1	-0.1	-0.2	-0.5	-0.7	-0.8
Area and regional development	a	a	-0.2	-0.5	-0.7	-0.8
Disaster relief and insurance	0	a	0.1	0.1	0.1	0.1
Total	-0.1	a	-0.4	-0.8	-1.2	-1.5
President's 1992 Budget as Estimated by CBO	7.6	6.7	6.1	5.6	5.5	5.3
President's 1992 Budget	7.7	6.6	6.0	5.6	5.5	5.4
CBO Reestimates	-0.1	0.1	0.1	0.1	a	-0.1

a. Less than $50 million.

PROPOSED POLICY CHANGES

The 1992 budget proposes a number of reductions relative to the CBO baseline in community and regional development programs. Budget authority would be below the baseline by 10.5 percent in 1992. Outlays would remain close to the baseline in 1992 but fall below it by 12 percent over the 1992-1996 period. Spending in this function will decline from 1991 levels by about $1 billion in 1992, even under baseline assumptions, largely because of the substantial 1991 outlays for disaster assistance related to the Loma Prieta earthquake and Hurricane Hugo. There are no pay-as-you-go proposals in this function.

Community Development. The community development programs focus primarily on housing and economic development in urban areas. The Administration's proposals for these programs would reduce outlays relative to the baseline by $75 million (or 2 percent) in 1992

and $2.25 billion (11 percent) over the next five years. Many of the proposed savings would result from program cuts similar to those recommended in previous budgets.

The Administration proposes to reduce funding for the Community Development Block Grant program. Appropriations would drop from $3.2 billion in 1991 to $2.9 billion per year thereafter. Because the program spends funds at a relatively slow rate in the first year, the proposed reduction would not have a significant impact on outlays in 1992, but the total savings in outlays over five years would be $1.9 billion.

Additional savings would result from discontinuing funding for several programs that were not reauthorized in the Cranston-Gonzalez National Affordable Housing Act. The act terminates the urban homesteading program, rental rehabilitation grants, and the Section 312 rehabilitation loan fund as of October 1, 1991. Resulting reductions in spending for these programs would amount to nearly $650 over the 1992-1996 period. In addition, the President proposes to rescind the 1991 appropriations and unobligated balances for these programs, and to eliminate the community development loan guarantee program and the emergency community water assistance grants program.

These reductions are partially offset by Presidential proposals that increase spending both in 1992 and over a five-year period. The President proposes to restructure the funding for the Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) program by transferring the 1991 appropriation of $1[illegible]3 million to another program (the Shelter Plus Care: Homeless Rental Housing Assistance program) and consolidating in the SAFAH program funding previously provided to programs for the homeless in the Departments of Health and Human Services, Education, and Labor. This restructuring would result in an increase in spending authority for SAFAH of $57 million for 1992, to be used for innovative programs for meeting both short- and long-term needs of homeless individuals and families. This increase is almost entirely offset by reductions in requests for the homeless programs from which the funding is drawn; the net increase is only $5 million above the baseline.

Area and Regional Development. Area and regional development programs primarily provide funding for rural economic development. As in the past, the President has proposed eliminating some of the programs and reducing funding levels for others. These proposed changes would result in outlays close to baseline levels in 1992 and outlay savings of $2.2 billion over the 1992-1996 period.

The President has again proposed to eliminate Economic Development Administration programs, which would save about $30 million in 1992 and $840 million over the next five years relative to the CBO baseline. The budget also includes reduced funding for the Appalachian Regional Commission and for the regional development programs of the Tennessee Valley Authority, which would reduce outlays below the baseline by $16 million in 1992 and $400 million over the 1992-1996 period.

Administration proposals would reduce the authorized amount of direct loans for the Rural Telephone Bank and increase the interest rate charged to borrowers. These changes would result in savings of less than $1 million in 1992. Direct loans would be replaced by a new guaranteed loan program. Also, the President proposes to reduce the authorized loan level for both guaranteed and direct loans under the Rural Development Insurance Fund (RDIF) and to discontinue RDIF guaranteed loans for water and waste disposal systems.

The President seeks to reduce appropriations for the rural water and waste disposal grants and to eliminate rural community fire protection grants. As a result, budget authority would be $91 million below the baseline in 1992, and outlay savings would total $233 million over five years.

The proposed reduction in spending for Indian programs would result in net outlay savings of about $40 million for 1992. Appropriations for construction and operation of Indian programs would be reduced by $140 million relative to the baseline, resulting in outlay savings of $53 million. These savings would be partially offset by new spending for construction, rehabilitation, and repair of Indian educational facilities and for Indian settlement payments.

Disaster Relief and Insurance. Outlays for these programs under the Administration's budget are above the baseline in all years, largely because the budget includes funding of $184 million in 1992 and subsequent years for disaster relief. There was no appropriation for this program in 1991, because unobligated balances were available from the large 1990 appropriation.

The Administration also proposes to revise the terms of the Small Business Administration's (SBA's) Disaster Loan Program. The proposal would reduce the amount of loans disbursed by limiting participation to only those people who cannot obtain credit elsewhere; it also would increase the interest rate paid by eligible borrowers. CBO estimates that these program changes would save $26 million in 1992 and about $240 million during the 1992-1996 period.

CBO REESTIMATES

CBO's estimates of outlays for function 450 are very close to the Administration's, differing primarily because of assumptions about spending rates.

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	43.1	47.1	48.8	49.1	50.1	47.6
Proposed Changes						
Pay-As-You-Go						
Stafford Student Loans	0	-1.0	a	a	a	0
Foster Care	0	-0.2	-0.3	-0.3	-0.4	-0.5
Other	0	-0.0	-0.1	-0.1	-0.1	-0.1
Subtotal	0	-1.2	-0.4	-0.5	-0.5	-0.6
Discretionary						
Elementary and secondary education	0	-0.2	-0.1	-0.5	-1.0	-1.6
Student financial assistance	0	-0.2	-0.3	-0.6	-0.9	-1.2
Training and employment	0	0.1	-0.1	-0.5	-0.7	-1.1
Social services	0	-0.6	-0.9	-0.7	-0.7	-0.8
Other	0	a	a	-0.2	-0.3	-0.4
Subtotal	0	-0.9	-1.4	-2.4	-3.5	-5.0
Total	0	-2.1	-1.8	-2.9	-4.1	-5.6
President's 1992 Budget as Estimated by CBO	43.1	45.0	47.0	46.2	46.1	42.0

a. Less than $50 million.

PROPOSED POLICY CHANGES

The President's proposals for education, job training, employment, and social services would reduce spending by $2.1 billion--or more than 4 percent--below CBO baseline projections in 1992. By 1996, spending would fall $5.6 billion (or about 12 percent) below the baseline. In 1992, $1.2 billion (55 percent) of the spending reductions result from pay-as-you-go proposals in the two largest entitlement programs, the Stafford Student Loan program and the Foster Care program. Most of this cut, however, is caused by extending the Internal Revenue Ser-

vice's (IRS's) ability to retain tax refunds of defaulters in the Stafford Student Loan program. Retention of these refunds reduces defaults and federal loan spending. By 1996, spending reductions from pay-as-you-go proposals account for only 10 percent of the total reduction, or $0.6 billion; the remaining 90 percent, or $5.0 billion, comes in discretionary spending cuts. With a few exceptions for some elementary and secondary education programs and the Head Start program, virtually all of the discretionary programs are held below baseline levels in 1992 and frozen at the President's 1992 request level in 1993 through 1996.

Pay-As-You-Go Policy Changes

Stafford Student Loan Program. The President's 1992 budget calls for a number of changes to the Stafford Student Loan program that would reduce spending by $1.0 billion in 1992 but leave spending thereafter essentially unchanged. Most of this 1992 reduction is caused by the President's extension of the provision to retain tax refunds of defaulters, which expires on January 10, 1994. The fact that the effects of extending this provision are shown in 1992 reflects the new principles of credit reform required by the Budget Enforcement Act of 1990. Under the act, budget outlays associated with new loans (issued in 1992 and later years) are shown as the present value of long-term costs in the year of the loan disbursements. Furthermore, consistent with the act, CBO shows the President's proposals that affect pre-1992 loans as the present value of expected changes in long-term costs in the year of the change, or in 1992 in the case of the IRS provision.

For years after 1992, budgetary effects of the President's proposals are largely offsetting. Outlays would rise because annual borrowing limits in both the Stafford and supplemental loan programs would be increased by amounts ranging from $875 to $6,000 for most students, depending on the year the student is in school and the type of the loan. Approximately 1.4 million borrowers are expected to increase their borrowing an average of $875 in 1992, raising loan volume by 9 percent. Outlays would decline, however, because the President also proposes to expand recent legislative efforts to reduce federal default costs. Thus, the budget includes several provisions that could prevent defaults, increase default collections, or lower federal default costs by

sharing costs with state governments and lenders. Any federal savings from these changes would be small because the Omnibus Budget Reconciliation Act of 1990 (OBRA) eliminated schools with high defaults from the program as of 1992.

Foster Care. The President proposes to slow the rapid growth in outlays for foster care by tightening the definition of allowable administrative activities. The proposal would reduce outlays by $0.2 billion below baseline projections in 1992, with savings rising to $0.5 billion in 1996. The proposed definition appears to exclude from federal reimbursement preplacement services for children who have not yet been placed in foster care and any administrative activities for children who receive state-funded rather than federally funded foster care payments. As a result, the proposal is estimated to reduce federal expenditures for administration and services by 25 percent each year. This proposal would overturn a Departmental Appeals Board interpretation of allowable administrative activities and would target federal funds more directly on the low-income children (those eligible for Aid to Families with Dependent Children) who receive federally funded benefits. Costs would be shifted to the states, which might react by reducing services to children. Some of the loss in federal funding would be offset by a proposed increase of $0.1 billion annually for child welfare services and research, discussed below. Details of the new definition of allowable administrative activities have not yet been specified, and so CBO has been unable to provide an independent estimate of the Administration's assumption that administrative costs would be reduced by 25 percent.

Other. As in recent years, the President proposes to eliminate the Trade Adjustment Assistance training programs (as well as cash payments in function 600). This proposal would affect approximately 20,000 people, and save $0.1 billion a year after 1992. Savings in 1992 are smaller than in later years because people training during the week of September 30, 1991, would continue to receive services.

Discretionary Policy Changes

Elementary and Secondary Education. The President's funding request for 1992 is $0.2 billion, or 3 percent, above CBO baseline projections. This increase accommodates two new initiatives--part of an Educational Excellence Act--that would increase 1992 funding by a total of $690 million. The first initiative funds parental choice programs primarily for school districts serving high portions of children from low-income families; the second funds a variety of programs designed to improve elementary and secondary education. Special education grants, math and science grants, emergency drug grants, concentration aid to areas with high proportions of low-income children, and Indian education grants all receive funding increases. Impact aid "b" grants are eliminated, however, and the basic Chapter 1 grants to school districts are frozen at the 1991 level of $5.0 billion. Other grant programs receive increases that do not cover inflation, are frozen at 1991 levels, or are eliminated.

The $0.2 billion reduction in 1992 outlays results from the projection methodology required by the Balanced Budget Act and followed by CBO. The Indian education grants received a one-time double funding in 1991 to put the program on a forward-funded basis. CBO baseline methodology inflates the 1991 appropriation level, thus continuing this double funding for five years, while the President's request does not. As a result, the President's budget outlays are lower than baseline projections in each year. Without this difference for Indian education, outlays for elementary and secondary education in the President's request would be at baseline levels in 1992 and $0.2 billion higher than the baseline in 1993.

Student Financial Assistance. The President's budget freezes federal funding for student financial assistance programs at the 1991 level of $6.7 billion--$0.3 billion, or 4 percent, below the baseline. Within the fixed funding, the President proposes to reallocate funds among student aid programs. In the Pell grant program, the maximum Pell grant is increased by $1,300 to $3,700. Proposed, too, is a new $170 million Presidential Achievement Scholarship program for Pell grant recipients who excel in their studies. These program increases are partially offset by provisions that channel Pell grant funds to the neediest

students, thus eliminating approximately 400,000 current recipients from the program. Student aid costs are further reduced by substantial cuts in supplemental grants, work-study, and Perkins loans, and by eliminating state student incentive grants.

Training and Employment. Policy changes in 1992 are minor in training and employment programs, although after 1992 most programs are frozen at the 1992 or 1993 level. In addition, the Administration proposes to target funds for the Job Training Partnership Act (JTPA) on people who are most in need of training by replacing the existing block grant and summer youth programs with separate year-round programs for low-income adults and youth. Also, a new grant program--Youth Opportunities Unlimited--is proposed for fiscal years 1992 through 1994 to provide comprehensive services to youth living in high-poverty areas. The President does not propose any additional funding for these changes. (Outlays increase slightly in 1992, in part because the switch from a summer to a year-round program moves spending forward in time.)

Social Services. The President's budget proposes to end two programs: State Legalization Impact Assistance Grants (SLIAG) and Community Services Block Grants. Other changes are modest.

All remaining funding for SLIAG--budget authority of $1.1 billion in 1992--is proposed for elimination, resulting in estimated outlay savings of $0.4 billion in 1992. These grants, available beginning in 1988 and ending in 1992, go to states to pay for certain costs of the legalization of undocumented aliens required by the Immigration Reform and Control Act of 1986. Rescinding the 1992 budget authority would reduce funding by 28 percent over the life of the program.

Once again, the President proposes eliminating the Community Services Block Grant program, reducing spending by $0.3 billion in 1992.

The President requests a $0.1 billion increase above the CBO baseline for child welfare services and research in 1992 and subsequent years. Also, the President has continued to highlight the Head Start program by requesting $2.1 billion in funding for 1992, a $0.1 billion

increase from 1991. After accounting for inflation, however, this funding level would only support services to about 600,000 children, virtually the same number served in 1991.

CBO REESTIMATES

Pay-As-You-Go Reestimates. The CBO reestimates of the President's budget are almost entirely in the Stafford Student Loan program, which follows the credit reform principles discussed earlier. The Office of Management and Budget has not consistently followed these principles, but instead has estimated the effects on pre-1992 loans as the annual change expected in the associated cash flows. These different estimating methodologies account for much of the CBO reestimates of the Stafford Student Loan proposals in the President's budget.

Unlike the Administration, CBO in its baseline projections did not assume the extension of the provision to retain tax refunds of defaulters. Extending this provision is expected to reduce 1992 outlays by $0.8 billion. In addition, CBO estimates 1992 savings to be $0.1 billion higher than the Administration's for the President's additional proposals to enhance the collection of defaults. CBO savings are lower than the Administration's in all remaining years because of the differences in estimating methodologies discussed above.

For many of the President's proposed changes, specific details needed for analysis were not available. Once legislative language is received, the estimates of the proposals could change substantially.

Other Reestimates. A major portion of the CBO reestimates is the result of different projections of economic variables. The economic reestimates raise spending by $0.4 billion to $0.5 billion a year in 1992 through 1994, with the reestimates declining to $0.1 billion in 1996. CBO projects higher short-term and long-term interest rates than the Administration and thus higher interest subsidies in the Stafford Student Loan program.

The remaining differences, technical in nature, lower spending by $0.1 billion in 1992 but raise spending by $0.7 billion in 1996. The Stafford Student Loan program accounts for some of the technical reestimates, which are negligible in 1992 and $0.2 billion in 1996. The largest source of these reestimates is that, unlike the Administration's current services projections, CBO's baseline does not include default collections from the IRS tax refund program because the program expires in January 1994. Another major source of technical reestimates is the Foster Care program, for which spending is $0.2 billion higher than Administration estimates in 1992, with the difference increasing to $0.5 billion in 1996. The largest source of difference is that CBO assumes higher growth in maintenance payments for room and board costs for children in foster care, based on historic trends.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 500 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	42.8	45.5	46.0	45.1	45.0	40.9
CBO Reestimates						
Pay-As-You-Go Proposals (Technical)						
Stafford Student Loans and other programs	0	-0.9	0.1	0.2	0.3	0.3
Other						
Economic						
Stafford Student Loans	0.1	0.4	0.5	0.4	0.2	0.1
Technical						
Stafford Student Loans	0.1	a	0.1	0.4	0.3	0.2
Foster Care	a	0.2	0.1	0.1	0.3	0.5
Other	0.1	-0.3	0.1	a	a	a
Subtotal	0.3	0.3	0.9	0.9	0.7	0.8
Total	0.3	-0.6	1.0	1.1	1.0	1.1
President's 1992 Budget as Estimated by CBO	43.1	45.0	47.0	46.2	46.1	42.0

a. Less than $50 million.

FUNCTION 550: HEALTH

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	71.4	83.1	92.5	101.9	112.4	124.8
Proposed Changes						
Pay-As-You-Go						
Medicaid	0	0.1	0.1	0.1	0.1	0.2
Federal Employees Health Benefits Fund	0	-0.1	-0.1	-0.1	-0.1	-0.1
Other	0	-0.1	-0.1	-0.1	-0.1	-0.1
Subtotal	0	-0.1	a	a	a	a
Discretionary						
Public Health Service	0	-0.2	-0.5	-1.0	-1.6	-2.4
Other	a	-0.2	-0.2	-0.3	-0.4	-0.4
Subtotal	a	-0.4	-0.8	-1.3	-2.0	-2.8
Total	a	-0.5	-0.8	-1.3	-2.0	-2.8
PHS Retired Officers Fund (Transfer to Function 600)	0	-0.1	-0.1	-0.1	-0.1	-0.1
President's 1992 Budget as Estimated by CBO	71.4	82.6	91.6	100.5	110.3	121.9

a. Less than $50 million.

PROPOSED POLICY CHANGES

The President's 1992 budget proposes modest spending cuts compared with the CBO baseline, reducing health expenditures by $0.5 billion in 1992 and by $2.8 billion in 1996. The largest reductions are for the Public Health Service. All of the pay-as-you-go changes are relatively small in each year.

Pay-As-You-Go Policy Changes

Medicaid. The Administration's 1992 budget plan includes three pay-as-you-go Medicaid proposals (as shown below in the table). The net

effect of these proposals would increase Medicaid spending by $65 million in 1992, and by $150 million in 1996.

Medicaid Pay-As-You-Go Proposals
(By fiscal year, outlays in millions of dollars)

	1992	1993	1994	1995	1996
Medical Support Enforcement	-5	-5	-10	-10	-15
Income Limit for Medically Needy Pregnant Women and Children	20	30	40	40	45
Impact of Medicare Proposals	50	80	90	105	120
Total	65	105	120	135	150

The President's 1992 Medicaid budget plan would enhance state authority to collect medical support payments through the Child Support Enforcement Agency and would also allow custodial parents to file directly with the noncustodial parent's insurer for reimbursement for a child's medical payments. This proposal also appeared in the Administration's 1991 budget plan. CBO estimates that this proposal would save $5 million in 1992 and $45 million over five years.

The Administration has proposed to expand access to Medicaid for certain "medically needy" pregnant women and children. The medically needy qualify for Medicaid because their medical expenses reduce their income to the program's eligibility level. Currently, the income standards used to determine Medicaid eligibility for most pregnant women and children are above the income standards used for those who are "medically needy." The Administration's proposal would raise the income standards used for "medically needy" pregnant women and children to the levels used for other pregnant women and children. The CBO estimates an additional 35,000 Medicaid participants would

result from this policy, adding outlays of $20 million in 1992 and $175 million over five years.

A proposal to add a coinsurance payment to clinical lab services under the Medicare program would raise Medicaid outlays by an estimated $445 million over five years. Because the Medicaid program pays Medicare premiums, deductibles, and coinsurance for approximately 15 percent of the Medicare population, Medicaid outlays would increase if Medicare coinsurance is increased.

Federal Employees Health Benefits Fund. The President's budget for the Federal Employees Health Benefits (FEHB) program would reduce federal spending for annuitants' health benefits by requiring the Postal Service to reimburse the government for a certain portion of past federal health benefits payments for Postal Service annuitants. In a series of changes since 1986, the Congress has sought to reduce the government's liability for paying the government portion of FEHB premiums for these annuitants. The Omnibus Budget Reconciliation Act of 1990 (OBRA) established the principle that the Postal Service should pay the government portion of health benefit premiums of any annuitant who retired after the Postal Service was created in 1972, prorated to reflect the Postal Service's portion of the annuitant's total federal government service. OBRA required the Postal Service to make five annual lump-sum payments for 1991 through 1995. However, these and past payments would not fully reimburse the government for the Postal Service's portion of what the government has already paid for Postal Service annuitants' health benefits. The President's budget proposal would require the Postal Service to pay the remaining amount due from the Postal Service through five annual payments of $66 million beginning in 1992 and ending in 1996.

Other. The Administration proposes to reduce federal costs by $50 million annually beginning in 1992, by requiring industry to pay half of the costs of inspections by the Food Safety and Inspection Service conducted during second shifts.

As in previous budgets, the President also plans to phase out the Health Education Assistance Loan (HEAL) program. The Administration proposes to reduce the dollar limitation for loans that the govern-

ment would guarantee each year through 1994, and would not guarantee any loans after that time. Savings from this proposal, calculated on a subsidy basis, would be less than $50 million each year, 1992 through 1996.

Discretionary Policy Changes

Public Health Service. The Administration would slow the growth of funding for the discretionary programs of the Public Health Service (PHS) to between 1 percent and 2 percent in 1992 through 1994, and then maintain the approximate 1994 funding level in 1995 and 1996. Slowing the growth rate would hold spending for these discretionary health programs below the CBO baseline by $0.2 billion in 1992 and by $2.4 billion in 1996.

Within the PHS, the Administration would hold funding for most of the programs of the Health Resources and Services Administration (HRSA) at 1991 levels. As in previous budgets, the Administration also proposes to eliminate most of HRSA's health professions grant programs. Savings, compared with the CBO baseline, would grow from $0.1 billion in 1992 to $0.5 billion in 1996.

As in the last nine budgets, the Administration plans to eliminate almost all funding for the construction of Indian health facilities, reducing overall funding for the Indian Health Service (IHS) in 1992 approximately 10 percent from 1991 levels. Under the President's request, IHS spending would fall $0.5 billion below the baseline in 1996.

While the Administration also intends to reduce federal funding for the Food and Drug Administration (FDA), it would institute user fees for certain FDA activities, including product reviews and registration, so that overall FDA funding would actually increase above 1991 levels. Under the proposal for user fees, which was also in last year's budget, federal funding would be reduced by 17 percent in 1992, resulting in savings that would increase from $0.2 billion in 1992 to $0.3 billion in 1996.

In contrast to the overall PHS funding policy, the Administration requests a 6 percent increase in funding for research at the National Institutes of Health (NIH) in 1992. The requested funding level is 2 percent, or $0.1 billion, above baseline levels for 1992, and would stay above baseline levels through 1994. Because of the funding increase, spending would be $0.1 billion above the baseline in each year, 1992 through 1994. However, because funding would not increase above the 1994 level under the Administration's proposal, spending for NIH would be $0.5 billion below the baseline in 1996.

Other. The President's budget for Medicaid would reduce federal spending for survey and certification of providers by funding the activities through user fees to be collected from service providers and deposited in a revolving fund. CBO estimates that this proposal, which was included in the President's 1991 budget, will save $92 million in 1992 and $356 million through 1996.

CBO REESTIMATES

CBO has not significantly reestimated any of the pay-as-you-go proposals in function 550. All reestimates of these proposals are technical, and total less than $50 million in each year.

Medicaid. CBO has reestimated the President's budget for Medicaid downward by $0.7 billion in 1991, and by $5.1 billion in 1996. Two factors account for most of the downward reestimate. First, while both the Administration and CBO adjust state forecasts of Medicaid expenditures in developing their Medicaid baselines, CBO makes a smaller upward adjustment than the Administration. Secondly, CBO and the Administration have different expectations regarding the length of the current surge in Medicaid expenditures, which grew almost 19 percent in 1990 and are projected to grow an additional 24 percent in 1991. These rates compare with an annual average growth of about 9 percent during the 1980s. This recent rapid growth, combined with tight state budgets, has already forced some states to cut their programs. Although estimates in the out-years are very uncertain, CBO expects states to respond more quickly to the rapid growth than does the Administration, and so projects lower growth.

Federal Employees Health Benefits Fund. CBO's reestimate of the President's budget for the FEHB program results in higher projections of total outlays for the annuitants' health benefits payments account and the FEHB trust fund account. The main differences stem from CBO's assumption of a higher growth rate for the average FEHB premium and, more important, that the government will pay a higher share of the premium. The Administration and CBO have adopted very different assumptions about the level of the government's share of the premium. A temporary provision of the Omnibus Budget Reconciliation Act of 1990 specified that a "proxy" premium be used in place of the (now defunct) Aetna high-option premium for the purpose of calculating the government's maximum premium payment. Because this provision expires in 1993, the Administration has assumed that current law will thereafter require the use of a different formula for this calculation--one that considerably lowers the premium payment. This assumption causes the government's average share to drop to 68 percent in 1994 and beyond, down from the 72 percent the Administration assumes in 1993. In contrast, CBO believes that the Congress will need to authorize whatever formula is used in 1994 if FEHB offers no new indemnity plan. Because new legislation will be required to authorize any particular formula, CBO's baseline projections assume that the government's current premium share of 74 percent will remain constant throughout the projection period.

Public Health Service. CBO's estimate of outlays for the PHS programs exceeds the Administration's estimate by $0.2 billion in 1991, $1.0 billion in 1992, and an average of $0.7 in each year 1993 to 1995, mainly because of different estimates of the Vaccine Injury Compensation program administered by the Health Resources and Services Administration. Under this program, people injured by certain vaccines administered before October 1, 1988, had to file their claims with the United States Claims Court before February 1, 1991, to be eligible for compensation from the federal government. In the final weeks before the deadline, HRSA received over 3,000 claims, compared with only 146 claims in all of 1989. Based on the tremendous surge in claims, the number of claims that have been awarded, and the average award payment, CBO estimates that compensating victims injured before October 1, 1988, and who have valid claims will cost about $2.7 billion from 1991 through 1995. The Administration, however, has not yet pro-

vided any additional funding beyond the 1991 appropriation of $63 million to pay the awards for qualifying victims. Other differences in PHS outlay estimates are based on different spending assumptions, but are very minor.

Child Health Insurance Credit. This program provides refundable tax credits to qualifying low-income families who pay for health insurance for their children. CBO's estimate of outlays for this program, which are the refunded portion of the credit, was provided by the Joint Committee on Taxation and exceeds the Administration's estimate by $0.1 billion in 1991, increasing to $0.6 billion by 1996.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 550 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	71.2	81.3	91.3	102.0	112.9	125.2
CBO Reestimates						
Pay-As-You-Go Proposals	0	a	a	a	a	a
Other						
Medicaid	-0.7	-1.2	-2.3	-3.6	-4.6	-5.1
Federal Employees Health Benefit Fund	0.6	1.0	1.2	0.7	1.0	1.1
Public Health Service	0.2	1.0	0.9	0.8	0.5	a
Child Health Insurance Credit	0.1	0.5	0.5	0.5	0.6	0.6
Other	a	-0.1	a	a	a	a
Subtotal	0.2	1.3	0.3	-1.5	-2.6	-3.4
Total	0.2	1.3	0.3	-1.5	-2.6	-3.4
President's 1992 Budget as Estimated by CBO	71.4	82.6	91.6	100.5	110.3	121.9

a. Less than $50 million.

FUNCTION 570: MEDICARE

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	104.8	116.9	128.3	142.1	157.7	176.7
Proposed Changes						
Pay-As-You-Go						
Reductions in payments to providers						
Hospitals	0	-1.6	-2.2	-2.9	-3.3	-3.5
Physicians	0	-0.1	-0.4	-0.5	-0.5	-0.6
Other providers	0	-0.2	-0.3	-0.4	-0.4	-0.5
Subtotal	0	-2.0	-2.9	-3.7	-4.3	-4.6
Increases in beneficiary copayments						
Lab coinsurance	0	-0.6	-0.9	-1.1	-1.2	-1.4
Reduced federal subsidy for high-income beneficiaries	0	a	-0.1	-0.2	-0.3	-0.4
Subtotal	0	-0.6	-1.1	-1.3	-1.5	-1.8
Other						
Medicare secondary payer	0	-0.1	-0.1	-0.1	-0.1	-0.2
Coordinated care	0	a	0.2	0.3	0.3	0.5
Subtotal	0	a	0.1	0.2	0.2	0.3
Total, Pay-As-You-Go	0	-2.6	-3.8	-4.8	-5.6	-6.0
Discretionary						
Medicare contractors and HCFA administration	0	-0.3	-0.5	-0.7	-0.8	-1.0
Subtotal	0	-0.3	-0.5	-0.7	-0.8	-1.0
Total, Changes	0	-2.9	-4.3	-5.5	-6.4	-7.0
President's 1992 Budget as Estimated by CBO	104.8	113.9	124.0	136.6	151.3	169.7

a. Less than $50 million.

PROPOSED POLICY CHANGES

The President's budget proposes to reduce the projected growth in the Medicare program by $2.9 billion in 1992 and by $7.0 billion in 1996. These proposed reductions, however, are smaller than those included in recent budgets. These cuts account for 45 percent of the total pay-as-you-go reductions proposed for 1992. While most of the proposed savings in Medicare would come from reductions in payments to providers, nearly one-quarter of the proposed savings would come from increased coinsurance and premiums paid by beneficiaries.

Pay-As-You-Go Policy Changes

Payments to Hospitals. The President's budget proposes to reduce payments to teaching hospitals for the direct and indirect costs of hospital-based training of physicians, to delay the application of the update factor in hospital payment rates by three months in every year, and to reduce payments to hospitals for outpatient services.

Medicare reimburses teaching hospitals for the indirect costs they incur for the resources used in training physicians. About 1,000 hospitals, or 20 percent of all Medicare hospitals, are teaching hospitals. Most of these hospitals are large, urban facilities, and they receive about 50 percent of the payments from Medicare's prospective payment system (PPS). Under current law, a teaching hospital receives an additional payment equal to 7.65 percent of its basic PPS payments for every 10 percent increase in the size of its teaching program. Recent studies by the Prospective Payment Assessment Commission and by CBO have shown that this adjustment is higher than that called for by the actual additional overhead costs that hospitals incur in their training activities. The President's budget would reduce the adjustment factor from the current 7.65 percent to 4.4 percent in 1992, and then reduce it by about 0.3 percentage points per year, to 3.2 percent in 1996. This proposal would reduce indirect teaching reimbursements to teaching hospitals to about $1.8 billion annually. The savings would be about $1.0 billion in 1992 and rise to $2.3 billion in 1996, reducing payments for indirect medical education by over 50 percent.

Payments to teaching hospitals would be further reduced by a proposal to change the formula used to calculate payment for the direct costs of medical education. Medicare makes direct payments to hospitals for the salary and related overhead costs of hospital residents based on the hospital's average allowable costs per resident in 1984 indexed to the consumer price index. The proposed new formula would reimburse hospitals for each qualified resident based on the national average salary per resident, the resident's specialty, and whether the resident was in or beyond the initial residency period. Primary care specialists would be reimbursed 2.4 times the average salary; nonprimary care specialists in their initial residency periods would be reimbursed 1.4 times the average salary; and nonprimary care residents beyond their initial periods would be reimbursed only for the average salary amount. This proposal would save $120 million in 1992 and $155 million in 1996, or about 15 percent of the projected costs of direct medical education payments.

All hospitals would be affected by the proposal to delay the update in hospital payment rates from October 1 to January 1 every year. CBO estimates that this change would reduce outlays by $0.4 million in 1992, and about $0.9 billion in 1996. This change would reduce hospital reimbursements under Medicare by about 1 percent a year.

The President's budget also includes two proposals aimed at achieving savings from outpatient hospital services. The first proposal would extend the diagnosis-related group payment for 15 days. Medicare would not pay separately for outpatient services related to a hospital admission within 15 days of discharge. This proposal would save $30 million in 1992 and $60 million in 1996. The second proposal would reform payments for outpatient department (OPD) services. The intent of the reform is to develop prospective rates for services to replace the current cost-based reimbursement system, and to make these rates uniform regardless of whether the service is provided in an OPD, an ambulatory surgery center, or a physician's office. The reform also would reduce beneficiary costs by basing the coinsurance amount on Medicare's allowed payment rate, rather than on the hospital's charge for the service. Because the prospective rates have not been released, no independent estimate of this proposal is possible. The Administration's estimate is treated as a savings target. Savings from

this proposal would be $50 million in 1992, rising to $175 million in 1996.

Payments to Physicians. The budget includes several proposals that would reduce payments to physicians by $0.1 billion in 1992 and by $0.6 billion in 1996. The proposals would eliminate duplicate payments and make payments more consistent across both settings and providers.

All physicians would be affected by two of the President's proposals. The first proposal would reduce the 1993 update for physician services by 0.9 percentage points. In 1993, savings would be $0.1 billion, rising to $0.2 billion in 1996. The second proposal would revise the Medicare Economic Index formula to incorporate better data sources and a revised methodology. Until actual data are available, it is impossible to predict whether these changes would cost or save money.

The Administration includes four proposals that would reduce fees for specific services. Reimbursement for anesthesia services would be paid at a single fee regardless of whether the service is provided by an anesthesiologist working alone or an anesthesiologist supervising a certified registered nurse anesthetist (CRNA). The amount paid to the supervising anesthesiologist would be the difference between the fee paid to an anesthesiologist working alone and the amount paid to the CRNA. In addition, the proposal repeals the payment increase that CRNA's received last year in the Omnibus Budget Reconciliation Act of 1990 (OBRA). This proposal would save $0.1 billion in 1992 and $0.2 billion in 1996.

The President also proposes to pay a single amount for surgery, whether or not an assistant is used. Currently, a separate payment is made to the primary surgeon and an assistant-at-surgery. The payment made to the primary surgeon would be the difference between the fee paid to the assistant and the fee established for the surgery. Savings from this proposal would be $35 million in 1992, increasing to $75 million in 1996.

The remaining two proposals regarding physicians would reduce reimbursement for tests. The Administration proposes to adjust Medicare payments for radiology and diagnostic tests based on an "efficient rate." Data would be collected during 1992 to determine this efficient level of operation. Until data are collected and new rates are set, this proposal cannot be estimated independently. The Administration's estimated savings of $65 million between 1993 and 1996 is treated as a savings target. The final proposal would eliminate the fee paid for drawing and handling specimens for lab tests performed in physicians' offices. This proposal would save $100 million over the five-year period from 1992 through 1996.

Payments to Other Medical Providers. Several proposals in the President's budget would reduce payments to other medical providers by $0.2 billion in 1992 and $0.5 billion in 1996. These providers include skilled nursing facilities, home health agencies, suppliers of durable medical equipment, laboratories, and other nonphysician providers.

The President's budget calls for legislation to alter the way Medicare reimburses certain skilled nursing facilities (SNFs). Proprietary SNFs, which receive about half of all SNF reimbursements, can now be reimbursed for return-on-equity payments as an allowable cost. Proprietary hospitals, however, no longer receive such payments. If the Congress legislated a similar exclusion for proprietary SNFs, CBO estimates that Medicare could reduce payments to SNFs by $45 million in 1992 and by $70 million in 1996, or about 2 percent of total projected payments to SNFs in that year.

The budget would also limit reimbursements to home health agencies. Under current law, reimbursements are subject to aggregate cost limits without regard to the type of provider (for example, skilled nursing facilities, speech or physical therapists) billing for services. The President's proposal would replace these aggregate cost limits with limits for each type of provider. CBO estimates that this proposal would save $90 million in 1992 and $145 million in 1996, or just under 3 percent of total reimbursements to home health agencies.

Four changes in payments to suppliers of durable medical equipment (DME) are proposed in the budget. The first proposal would

amend last year's OBRA to phase in the national fee schedule using the national median, rather than the national weighted average, as the basis for payment. This proposal would result in greater savings when the fee schedule is fully phased in. The second proposal would reduce the oxygen fee schedule by 5 percent, reflecting the shift in current treatment from liquid and gaseous systems to oxygen concentrators. The third DME proposal would establish a national fee schedule for orthotic and prosthetic devices that is consistent with the DME fee schedule. Finally, the President proposes to include certain feeding nutrients and supplies under the national DME fee schedule. Savings from these four proposals would be $55 million in 1992, increasing to $155 million in 1996.

Three other proposals would change Medicare reimbursements for labs, physical and respiratory therapy, and outpatient drugs. The update factor for laboratory fees that are above the fee schedule cap set by OBRA would be eliminated in 1992 and 1993. The 1992 savings would be $20 million, increasing to $85 million in 1996. Payments for physical and respiratory therapy would be restructured to incorporate actual rather than projected inflation. This proposal would save $10 million in 1992 and $20 million in 1996. Beginning in 1992, Medicare-covered drugs would be reimbursed at the average wholesale price less 15 percent and indexed in future years to the consumer price index. This proposal would save the Medicare program an estimated $80 million over five years.

The next two proposals, considered but rejected during the budget negotiations of 1990, are included in the President's 1992 budget. These proposals would increase the coinsurance and premiums paid by beneficiaries, rather than reduce payments made to providers. Savings achieved by increasing beneficiary coinsurance and premiums would be $0.6 billion in 1992 and would rise to $1.8 billion in 1996.

20 Percent Lab Coinsurance. Medicare currently pays 100 percent of the fee schedule amount for clinical laboratory services, and providers must accept that fee as full payment for the service. The President would impose 20 percent coinsurance for laboratory services furnished in all settings. This proposal would make Medicare's coinsurance structure more consistent, since all other provider services currently

have 20 percent coinsurance. The Medicare savings from this proposal would be $0.6 billion in 1991 and would increase to $1.4 billion in 1996. Because Medicaid pays coinsurance amounts for certain Medicare beneficiaries, Medicaid costs would be increased by $50 million in 1992 and $120 million in 1996 (see function 550).

Reduce Federal Medicare Subsidy for High-Income Beneficiaries. Another proposal rejected during the 1990 budget negotiations would reduce the subsidy value of Supplementary Medical Insurance (SMI) for high-income beneficiaries through the SMI premium. The current monthly premium, set in law by OBRA, equals approximately 25 percent of program costs. The remaining 75 percent of SMI program costs are financed from general revenues. The President proposes to increase the SMI premium to equal 75 percent of program costs for beneficiaries with adjusted gross incomes greater than $125,000 for single beneficiaries, and $150,000 for couples. The monthly premium paid by these higher-income enrollees would be $92.50 in 1992 compared with $31.80 under current law. Approximately 400,000 beneficiaries are assumed to pay the higher premium by 1996. These estimates are subject to considerable uncertainty because the enforcement mechanisms have not yet been specified. Gross savings from this proposal would be $77 million in 1992 and would increase to $460 million in 1996. The costs of administering this proposal, however, are estimated to be $50 million in each year, yielding net savings of $27 million in 1992 and $410 million in 1996.

Medicare Secondary Payer. The President proposes to revise the Medicare secondary payer (MSP) provisions for disabled beneficiaries and those with end-stage renal disease to make the provisions consistent with those affecting elderly enrollees who work. In addition, the President proposes to clarify that disabled individuals would be subject to the MSP provision only by reason of current employment or the employment of a family member. These proposals would save $80 million in 1992 and $150 million in 1996.

Coordinated Care. The President's budget includes costs of $40 million in 1992, rising to $490 million in 1996, to expand the role of health maintenance organizations and preferred provider organizations in Medicare. This proposal was not developed in sufficient detail to allow

an independent estimate, so the Administration's estimate is treated as a spending target.

Discretionary Policy Changes

The President's request for Medicare administrative funds is $0.3 billion lower than the CBO baseline in 1992. Part of the difference stems from the Administration's proposal to fund survey and certification activities through user fees. The request covers the administration of Medicare contractors and management of programs within the Health Care Financing Administration.

CBO REESTIMATES

Pay-As-You-Go Reestimates. The CBO estimate of the President's proposals has lower savings than the Administration's estimate. These lower savings result, in part, from CBO's lower economic assumptions for the market-basket update for hospital services.

Technical differences in the pay-as-you-go proposals result from different estimating assumptions and different program spending levels. CBO's estimated savings for the medical education proposals are lower because CBO projects lower spending for medical education, particularly in the out-years.

Other Reestimates. CBO's economic reestimates of the Medicare program are lower than the Administration's estimates in 1992 through 1996, in part because of CBO's lower projections of the market-basket update for hospital services and the increase in the Medicare Economic Index for physician services. These updates are heavily weighted toward wage growth, which CBO projects to be lower than does the Administration. If the Administration's update factors were used, the CBO baseline would be higher by $0.6 billion in 1992 and $5.1 billion in 1996. Most of this difference occurs in the Hospital Insurance (HI) program.

The remaining differences result mostly from technical differences in the estimates. In the HI program, CBO uses higher growth in the case-mix index for PPS hospitals than does the Administration. This difference accounts for $0.3 billion of the $0.4 billion technical difference for HI in 1992. In the SMI program, the technical differences stem from lower estimated growth in the use of physician and laboratory services.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 570 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	104.4	113.7	124.6	138.5	154.5	174.6
CBO Reestimates						
Pay-as-You-Go Proposals						
Economic						
Hospital Insurance	0	0.2	0.2	0.3	0.3	0.4
Technical						
Hospital Insurance	0	0.1	0.2	0.3	0.3	0.6
Supplementary Medical Insurance	0	-0.1	-0.1	-0.1	-0.1	-0.2
Subtotal	0	0.2	0.3	0.4	0.5	0.8
Other						
Economic						
Hospital Insurance	0	-0.5	-1.3	-2.2	-3.0	-3.5
Supplementary Medical Insurance	0	-0.1	-0.5	-1.0	-1.4	-1.6
Technical						
Hospital Insurance	-0.1	0.4	1.1	1.6	2.2	1.7
Supplementary Medical Insurance	0.4	a	-0.1	-0.7	-1.5	-2.3
Other	a	0.1	a	a	a	a
Subtotal	0.3	a	-0.9	-2.3	-3.7	-5.8
Total	0.3	0.2	-0.6	-1.9	-3.2	-5.0
President's 1992 Budget as Estimated by CBO	104.7	113.9	124.0	136.6	151.3	169.7

a. Less than $50 million.

FUNCTION 600: INCOME SECURITY

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	169.7	179.9	187.7	199.1	209.6	219.0
Proposed Changes						
Pay-As-You-Go						
Supplemental Security Income	0	-0.1	-0.2	-0.2	-0.3	-0.3
Family Support Payments	0	-0.1	-0.1	-0.1	-0.2	-0.2
Trade Adjustment Assistance	0	-0.1	-0.1	-0.1	-0.1	-0.1
Other	a	0.1	0.1	0.1	0.1	0.1
Subtotal	a	-0.2	-0.3	-0.4	-0.5	-0.5
Discretionary						
Low-income energy assistance	0	-0.6	-0.8	-1.1	-1.4	-1.6
Housing assistance	a	0.2	0.3	0.5	0.2	0.2
Administration of unemployment compensation	0.1	0.5	0.4	0.3	0.2	0.2
Other	0.1	-0.1	-0.1	-0.1	-0.3	-0.5
Subtotal	0.2	a	-0.2	-0.4	-1.3	-1.7
Other	0	a	a	a	a	a
Total	0.2	-0.3	-0.5	-0.9	-1.8	-2.2
PHS Retired Officers Fund (Transfer from Function 500)	0	0.1	0.1	0.1	0.1	0.1
President's 1992 Budget as Estimated by CBO	169.9	179.8	187.3	198.4	207.9	216.9

a. Less than $50 million.

PROPOSED POLICY CHANGES

The changes proposed for income security programs are much smaller than those in last year's budget. If enacted, these proposals would reduce outlays below the CBO baseline by $0.3 billion in 1992 and by $2.2 billion in 1996. Changes in outlays would be 1 percent or less in any year. Pay-as-you-go policy changes are relatively minor and few in number. Most of the proposed changes are in discretionary pro-

grams, particularly the Low-Income Home Energy Assistance program and housing programs.

Pay-As-You-Go Policy Changes

Supplemental Security Income. The Administration proposes two policy changes that would reduce projected Supplemental Security Income (SSI) outlays by a combined $0.1 billion in 1992 and $0.3 billion in 1996. The first proposal, repeated from last year's budget, would require states to pay a fee to the Social Security Administration if they elect to have their state supplemental payments federally administered. The fees would be phased in over three years, reaching 5 percent of the amount of a state's supplemental payments in 1994. CBO estimates that the Social Security Administration would collect $65 million in fees in 1992 and $240 million in 1996. Fees would be collected from 17 states and the District of Columbia; over two-thirds of the monies would be collected from California.

The Administration also proposes to collect overpayments to SSI recipients by reducing the recipients' Social Security payments. CBO estimates that $32 million would be collected from 115,000 SSI recipients in 1992 and that $21 million would be collected from 60,000 in 1996. More SSI recipients would be affected in 1992 than in 1996 because of an existing backlog of uncollected overpayments.

Family Support Payments to States. The President's proposed savings in this account are modest, totaling $0.1 billion to $0.2 billion a year relative to the CBO baseline and accounting for 1 percent or less of outlays. Again this year, most of the changes occur in the Child Support Enforcement (CSE) program. No policy changes are proposed for the Aid to Families with Dependent Children (AFDC) program or for the several child care programs within the account.

A new proposal would modify CSE incentive payments, which are payments to states based on the ratios of their collections of child support to their administrative costs. The new incentive system--estimated to save $0.1 billion a year--would cut these current-law incentives in half, and distribute most of the resulting savings to states

through additional incentive payments. The nature of these additional incentives has not yet been fully developed, but they would probably be based on performance factors such as the establishment of paternity or child support obligations. Such a reform would reduce the incentives states now have to service the easiest cases first in order to maximize their cost-effectiveness ratios, and would give them an incentive to deal with the more difficult cases.

The Administration again proposes to require states to charge higher fees for CSE services for non-AFDC families, saving an estimated $0.1 billion a year. States would have to charge an application fee of $25 and an annual service fee of $25 for all non-AFDC cases with child support collections. Approximately 2.7 million CSE cases estimated to open in 1992 could be affected by the proposal, as could 1.7 million cases estimated to have collections. States would be given considerable flexibility in managing the fees, including options to absorb part or all of the fee and to charge a higher $50 fee to only those families with incomes above 185 percent of the poverty threshold. These fees would help to offset the federal government's rising net costs for the CSE program, although they could also discourage some families--particularly those with low incomes--from using the program. In addition, beginning in 1994, families receiving food stamps would be required to cooperate with CSE personnel in establishing child support, as is currently the case for AFDC families. An estimated 500,000 families would initially be brought into the CSE program as a result. Based on CBO estimates, this proposal, which was also included in last year's budget, would save $0.1 billion in food stamp payments and cost $0.1 billion in child support administration, for a tiny net savings in 1995, the first year of full operation.

Trade Adjustment Assistance. As it has in recent years, the President's budget proposes to eliminate the Trade Adjustment Assistance program for workers who lose their jobs because of competition from foreign imports. The proposal would save an estimated $0.1 billion annually and would eliminate benefits for approximately 24,000 workers in 1992.

Other. The only other pay-as-you-go policy changes affect railroad retirement and nutrition programs. The President has proposed two

pay-as-you-go policy changes in the Railroad Retirement account. One proposal would change the financing of certain windfall benefit payments, resulting in an increase in funding from a pay-as-you-go account, an offsetting decrease in a discretionary account, and no change in benefits for railroad retirees. The second proposal would extend coverage for certain dependent benefits, resulting in a net outlay of less than $0.1 billion annually. This outlay would appear in Social Security in 1992 and in the Railroad Retirement account in the subsequent years, because of a one-year lag in the system of financial transfers between these accounts.

The Administration proposes a series of largely offsetting policy changes in child nutrition programs in order to shift more benefits to lower-income children. One proposal would increase subsidies for school lunches and breakfasts served to children from families with incomes between 130 percent and 185 percent of the poverty level by 25 cents and 20 cents, respectively. The increase would be offset by a proposed reduction in subsidies for meals served to children from families with incomes above 185 percent of poverty--a reduction of 6 cents for lunches and 3.75 cents for breakfasts.

As estimated by CBO, the child nutrition proposal saves $11 million in fiscal year 1992 and a total of $87 million over the 1992-1996 period. Increasing the lunch and breakfast subsidies for children from families with incomes between 130 percent and 185 percent of poverty is estimated to cost $116 million in 1992, of which $63 million represents direct costs for the higher subsidies and $53 million results from increases in participation induced by the lower prices. Reducing the subsidy to children from families with incomes above 185 percent of poverty saves $127 million in 1992. Of these savings, $113 million results from lower subsidies and $14 million from estimated participation decreases spurred by the higher prices charged to students. The Administration shows net costs of approximately $10 million annually because it assumes greater participation by children from families with incomes between 130 percent and 185 percent of poverty.

Finally, the President proposes two other small changes--the collection of user fees for certain marketing agreements and orders, and a

1996 level of funding for Nutrition Assistance for Puerto Rico that is slightly below CBO baseline levels.

Discretionary Policy Changes

Low-Income Home Energy Assistance. The Administration requests $1.0 billion for the Low-Income Home Energy Assistance Program (LIHEAP) in 1992. Of this amount, $0.1 billion would become available only if the price of home heating oil in December, January, or February exceeds the national average price of home heating oil of the past four years by 20 percent. Under CBO economic assumptions, the monies would become available.

The total funding request for 1992 is $0.6 billion below the 1991 appropriation and is also $0.6 billion below the CBO baseline for 1992. The Administration proposes further reductions in this program in subsequent years, reducing it to $0.4 billion in 1996, which is $1.6 billion, or 81 percent, below the CBO baseline.

First funded in 1981, LIHEAP received a peak appropriation of $2.5 billion in 1985 and has received declining funding levels since. Heating assistance benefits, the program's largest component, were provided to 6.6 million households in 1985 but to only 5.5 million households in 1990.

Housing Assistance. For 1992, the President requests $21.5 billion for the various housing assistance programs operated by the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA). Although this request is $1.3 billion above the baseline, outlays would increase by only $0.2 billion in the first year, because of the multiyear nature of many housing programs. Over the 1992-1996 period, outlays from the President's proposed budget would increase $1.4 billion above baseline outlay projections.

The President's request would shift funds among the various housing programs. Only $10.7 billion would be allocated to HUD's Section 8, public housing, and elderly and handicapped assistance programs, an 11 percent decline from the $12.0 billion CBO baseline for these

programs. The funding proposed for 1992 could assist up to 110,000 units, approximately 80,000 of which could be receiving rental assistance for the first time. Only 2,000 of these 110,000 units would be housing for the elderly or handicapped, compared with over 10,000 units in the CBO baseline. The budget request does, however, contain funds for leasing 3,000 private units for this purpose. New funding for public and Indian housing in the budget is limited to funds for modernizing existing projects and amending current contracts. No funds are proposed for construction of new public housing.

The Administration's budget also includes $2.5 billion to implement three programs that were newly authorized in the Cranston-Gonzalez National Affordable Housing Act. No funds have yet been appropriated for these programs, and so they are not built into CBO baseline projections. About $0.9 billion of the $2.5 billion is earmarked for HOPE (Homeownership and Opportunity for People Everywhere) grants to be used to enable some residents of public housing and other low-income families to purchase their residences. Funding for the Home Investment Partnerships Block Grant program is set at $1.0 billion. This money would be made available to participating state and local jurisdictions to increase, in various ways, the availability of affordable housing. The remaining funds--just under $0.7 billion--are for a third new program that would allow HUD to offer various inducements to owners of low-income housing to maintain the low-income tenancy.

Administration of Unemployment Compensation. The President requests a $0.1 billion supplemental appropriation in 1991 for administrative expenses related to unemployment compensation, and an amount that is $0.5 billion above the CBO baseline projection for 1992. Some of the difference in 1992 is simply an extension of the $0.1 billion difference in 1991. However, much of the difference occurs because CBO followed the new rules of the Budget Enforcement Act of 1990 and adjusted its baseline for projected changes in the number of unemployment recipients, as well as for inflation. Under these rules and CBO economic assumptions of declining unemployment rates, the CBO baseline for 1992 fell $0.2 billion below the 1991 appropriation. In contrast, the President's request for 1992 is $0.2 billion higher than the 1991 request, reflecting anticipated increases in work load. In

subsequent years, the President's requests are between $0.2 billion and $0.4 billion above the CBO baseline.

Other. The President also requests a 1991 supplemental appropriation for administrative expenses for the Supplemental Security Income program, and amounts that are above the CBO baseline in 1992 through 1996. These requests would increase outlays by $0.1 billion to $0.2 billion in 1991 through 1996. The supplemental appropriation is requested to cover the expected administrative costs of reviewing cases affected by the Supreme Court's February 1990 decision in *Sullivan* v. *Zebley*. The only other program with proposed increases of $0.1 billion or more is the Special Supplemental Food Program for Women, Infants and Children (WIC). The President's request is $0.1 billion above the baseline in 1992 through 1994, but is frozen at 1994 levels and falls below the baseline by 1996.

The President proposes to freeze a number of other discretionary programs at their 1991 level, producing a growing stream of outlay savings relative to the CBO baseline. Programs frozen at the 1991 level include the Child Care and Development Block Grant, Refugees Assistance, the Commodity Supplemental Food Program, and Commodities for Soup Kitchens. Funding for the Emergency Food and Shelter Program is also frozen between 1992 and 1996, but at a level 25 percent below the 1991 appropriations.

In addition to proposing flat funding levels for the Child Care and Development Block Grant, the President proposes to continue in every year the 1991 funding restriction that prohibits states from obligating funds before the last weeks of September. This restriction would delay spending, and, combined with the freeze in funding levels, would reduce child care outlays below baseline projections by $0.3 billion in 1992, $0.2 billion in 1993, and $0.1 billion in 1994 through 1996.

Other Policy Changes

The Administration is expected to issue a regulation limiting a family's long-term use of the Emergency Assistance program, which provides emergency aid to AFDC families. The program is part of the

Family Support Payments account. Details of the regulation are not available, but the budget's current-law projections of Emergency Assistance include savings of around $40 million a year for the effects of the regulation.

The final change in function 600 would be a transfer of about $0.1 billion annually from function 550 for payment of retirement benefits for officers of the Public Health Service (PHS) commissioned corps. Financing of the fund would be changed from a pay-as-you-go system to an accrual-basis system, but there would be no change in benefit levels and no net change in outlays.

CBO REESTIMATES

Pay-As-You-Go Reestimates. CBO's reestimate of the President's child nutrition proposal shows small savings, in contrast to the Administration's estimate of small costs. The major difference is that CBO does not assume as large an increase in participation among low-income children as does the Administration. The only other significant reestimate is for the President's proposal to extend coverage of certain dependent benefits under Railroad Retirement. CBO estimates are $66 million lower than the Administration's in 1992 only, because of a one-year lag in the financial interchange between Social Security and Railroad Retirement that was not included in the Administration's estimate. Other reestimates are minor. In the case of the Child Support Enforcement proposal for families receiving food stamps, CBO's reestimates show larger food stamp savings and larger CSE costs, but little net change; reestimates for other CSE proposals are small.

Other Reestimates. CBO economic reestimates lower spending in all years, because CBO projects lower COLAs and inflation. The economic reestimates decrease in size after 1993 because of the partially offsetting effects of CBO's economic assumptions for unemployment rates, which are below the Administration's in 1992 and 1993, but above them in 1994 through 1996.

Estimates of the number of people receiving unemployment compensation, food stamps, and AFDC--three programs particularly sensi-

tive to changes in unemployment rates--are quite uncertain this year, because of recent unexplained increases in participation, and uncertainties regarding the length and severity of the current economic downturn. CBO reestimates reduce outlays in unemployment compensation by $3.5 billion in 1992, primarily because CBO's estimate of 8.0 million beneficiaries in 1992 is 2.1 million people less than the Administration's estimate, even after adjusting for economic differences. Downward reestimates in food stamp outlays--averaging about $0.2 billion annually--also result primarily from lower participation estimates.

Spending in a number of the programs in the Family Support Payments account will be subject to some of the same uncertainties as unemployment compensation and food stamps. In AFDC, the economic downturn drove caseloads up sharply in 1990--by about 200,000 cases to a level of 4.0 million cases, compared with a virtually unchanged caseload on average over the previous five years. AFDC caseloads are expected to grow sharply again in 1991, and somewhat slower in 1992, reaching an estimated caseload of 4.4 million. Spending projections for the AFDC-Unemployed Parent program are also quite uncertain because all states are mandated to have such a program beginning in 1991; CBO's 1992 baseline includes 60,000 AFDC-UP families in the states affected by the mandate. Most of CBO's reestimate in this account reflects somewhat lower AFDC caseloads and benefit levels per case in the next few years, but slightly higher caseloads and benefit levels per case beginning in 1994 or 1995. There is also a downward estimate of $0.1 billion to $0.2 billion a year in outlays for three child care programs added to this account in 1988 and 1990 legislation. Because these programs are quite new, their spending levels are uncertain. Finally, CBO's estimated outlays for a related account, the Job Opportunities and Basic Skills Training Program (JOBS), also range from about $0.1 billion to $0.2 billion below the Administration's. CBO estimates that the current fiscal situation will make it hard for some states to provide matching funds to use their full share of the capped entitlement, resulting in lower outlays than in the Administration's estimates.

CBO estimates of outlays from refunds of the earned income tax credit (EITC) are $0.4 billion lower than Administration estimates in

1992 and $2.3 billion lower in 1996. This reestimate results from different methodologies for adjusting the data for changes between 1988 and 1996.

CBO's technical reestimates of Civil Service Retirement reduce program outlays by $0.3 billion in 1991 and $0.8 billion in 1996. The 1991 difference stems mainly from different assumptions about the effect of recent legislation eliminating lump-sum payments for most retirees beginning December 2, 1990. CBO assumes that lump-sum payments will total $1.5 billion in 1991; the Administration assumes they will total $1.6 billion, because the Administration assumes that more employees elected the lump-sum option. In addition, the Administration assumes higher retiree and survivor benefits than CBO in each year.

CBO's technical reestimate of the Supplemental Security Income program raises outlays by $0.2 billion in 1992 but lowers them by $0.8 billion in 1996. Most of the SSI reestimate results from differing assumptions about the number of beneficiaries. CBO assumes a slightly higher number of beneficiaries in both the aged and the blind/disabled categories in 1992. For 1996, however, the Administration assumes that the number of blind/disabled SSI recipients will be about 4 percent higher than in CBO estimates, primarily because of differing estimates of the number of additional disabled children who will become SSI recipients as a consequence of the Supreme Court's decision in *Sullivan* v. *Zebley*, announced in February 1990.

Reestimates in outlays for child nutrition programs result primarily from lower participation in the school lunch program and the child care food program. Remaining differences in estimates include positive reestimates in the Black Lung Disability Trust Fund and positive and negative reestimates in Military Retirement and housing programs.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 600 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	173.2	184.8	194.1	204.8	215.2	223.7
CBO Reestimates						
Pay-As-You-Go Proposals (Technical)	a	-0.1	a	a	a	-0.1
Other						
Economic	-0.3	-0.8	-1.2	-0.7	-0.7	-0.1
Technical						
Unemployment compensation	-1.0	-3.5	-4.2	-3.3	-3.0	-2.7
Food Stamps	-0.3	a	-0.1	-0.2	-0.2	-0.2
Family support payments and JOBS	-0.4	-0.5	-0.3	-0.1	0.2	0.3
Earned income tax credit	-0.1	-0.4	-0.5	-1.0	-1.8	-2.3
Civil Service Retirement	-0.3	a	-0.2	-0.4	-0.7	-0.8
Supplemental Security Income	-0.7	0.2	-0.3	-0.5	-0.6	-0.8
Child nutrition	-0.3	-0.2	-0.3	-0.3	-0.4	-0.4
Other	0.1	0.3	0.3	0.1	-0.1	0.1
Subtotal	-3.0	-4.2	-5.6	-5.7	-6.6	-6.7
Total	-3.3	-5.1	-6.9	-6.5	-7.3	-6.9
President's 1992 Budget as Estimated by CBO	169.9	179.8	187.3	198.4	207.9	216.9

a. Less than $50 million.

FUNCTION 650: SOCIAL SECURITY

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	268.2	286.8	303.7	320.6	338.2	356.7
Proposed Changes						
Discretionary						
Administrative expenses	0	0.1	0.1	a	-0.2	-0.4
Other Changes[b]						
Increased exempt earnings limit for recipients ages 65-69	0	0.1	0.1	a	0	0
Benefits for certain people ineligible for such benefits under the Railroad Retirement Act	0	0.1	a	a	a	a
Other	0	0	0	a	a	a
Subtotal	0	0.2	0.1	a	a	a
Total	0	0.3	0.2	0.1	-0.2	-0.4
President's 1992 Budget as Estimated by CBO	268.2	287.1	303.8	320.6	338.1	356.3

a. Less than $50 million.

b. Changes in Social Security benefits and revenues are not included under the general pay-as-you-go restrictions, but instead are subject to separate rules in the Senate and House.

PROPOSED POLICY CHANGES

The President's 1992 budget offers only minor changes in Social Security spending. The cumulative 1992-1996 outlay effects of the proposed changes are less than $50 million compared with baseline spending for the period of $1.6 trillion.

Administrative Costs. The Administration proposes increases for 1992 and 1993 in the administrative expenses of the Social Security Administration. Outlays for these expenses, which the Office of Management and Budget (OMB) has included under the domestic discretionary caps, are projected to be above the baseline by $90 million in

1992 and $54 million in 1993, but to fall below baseline projections in 1995 and 1996 by $163 million and $375 million, respectively.

Benefit Payments. The Administration also proposes to increase the exempt earnings limit for beneficiaries ages 65 to 69 and to provide Social Security benefits to certain Railroad Retirement recipients not eligible under the Railroad Retirement Act for particular dependent benefits. If these proposals were made in most benefit programs, they would have been subject to the pay-as-you-go requirements. Social Security benefit payments, however, are not subject to the pay-as-you-go requirements under the Budget Enforcement Act of 1990 and are not to be included in budget totals. Instead, legislative changes face separate rules in the House of Representatives and in the Senate, designed to constrain efforts to reduce the surpluses in the Social Security trust funds. The House establishes a maximum of $250 million in the five-year costs for legislation for which the rule does not apply; the Senate requires a 60 percent vote for any change that would reduce the projected surplus in the trust funds.

The proposed changes appear to have been designed to stay within the $250 million limitation imposed in the House rule. CBO estimates that the proposals would cost more than $250 million, however, with the proposed increase in exempt earnings alone costing $260 million during fiscal years 1992 through 1994, with no estimated costs in other years. Under CBO assumptions, the proposed $800 increase in 1992 and $200 rise in 1993, would produce exempt earnings levels of $11,000 and $10,880, respectively. Although the budget indicates that the proposal to pay dependent benefits to certain Railroad Retirement beneficiaries would not affect Social Security outlays because of the existing financial interchange arrangement with the Railroad Retirement Board, CBO estimates that net Social Security outlays--after the financial interchange--would rise by $60 million in 1992 but fall by about $4 million annually thereafter. Because the payments to the Railroad Retirement Board would fall under this proposal, outlays in function 600 (income security) would increase, and this increase would be subject to the pay-as-you-go rules. (See Function 600 for further details.)

CBO REESTIMATES

CBO has reestimated the President's budget request downward by about $0.7 billion in 1991 and about $8.5 billion over the 1992-1996 period. CBO's projections of lower inflation and the resulting smaller cost-of-living adjustments (COLAs) reduce outlays by about $11.0 billion through 1996, offset by about $1.7 billion in technical reestimates.

Social Security Cost-of-Living Adjustments
Assumed by CBO and the Administration
(In percent)

	1992	1993	1994	1995	1996
CBO	4.8	3.5	3.6	3.6	3.6
Administration	5.2	4.0	3.7	3.5	3.4

CBO's technical reestimates lower outlays through 1993, but increase them thereafter. CBO's projections of retired-worker beneficiaries are lower than the Administration's by about 90,000 in 1991, with this differential diminishing after 1994. In addition, CBO projects slightly slower growth in real average monthly benefits (that is, after accounting for COLAs) during 1991 and 1992, but faster growth after 1992. CBO's estimates also reflect higher retroactive benefit payments than do the Administration's.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 650 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	269.0	288.6	306.5	323.1	339.6	356.6
CBO Reestimates						
Economic (Cost-of-living adjustments)	0	-0.8	-2.2	-2.9	-2.8	-2.3
Technical						
Number of beneficiaries	-0.7	-0.8	-0.9	-1.0	-0.9	-0.7
Average benefit adjusted for inflation	-0.2	-0.2	a	1.0	1.8	2.4
Retroactive benefits	0.1	0.2	0.3	0.4	0.4	0.3
Other	0.1	0.1	a	a	a	a
Subtotal	-0.7	-0.7	-0.5	0.4	1.2	2.0
Total	-0.7	-1.5	-2.7	-2.5	-1.6	-0.3
President's 1992 Budget as Estimated by CBO	268.3	287.1	303.8	320.6	338.1	356.3

a. Less than $50 million.

FUNCTION 700: VETERANS BENEFITS AND SERVICES

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	31.2	34.1	35.5	38.2	37.9	37.6
Proposed Changes						
Pay-As-You-Go						
Guaranty and Indemnity program	0.0	-0.4	-0.3	-0.3	-0.3	-0.3
Loan Guaranty program	0.0	-0.8	a	a	a	a
Pensions	0.0	a	-0.1	-0.2	-0.2	-0.2
Compensation	0.0	a	-0.1	-0.1	-0.1	a
Reimbursements, medical care	0.0	0.0	0.0	-0.1	-0.1	-0.1
Readjustment benefits	0.0	a	a	a	a	a
Subtotal	0.0	-1.3	-0.6	-0.7	-0.7	-0.6
Discretionary						
Medical care	0.0	-0.1	0.3	a	-0.1	-0.2
Reimbursements, medical care	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
General operating expenses	0.0	a	-0.1	-0.1	-0.2	-0.2
Other	0.0	a	a	-0.1	-0.1	-0.2
Subtotal	0.0	-0.2	a	-0.3	-0.5	-0.7
Total	0.0	-1.5	-0.6	-1.0	-1.2	-1.4
President's 1992 Budget as Estimated by CBO	31.2	32.6	34.9	37.2	36.8	36.2

a. Less than $50 million.

PROPOSED POLICY CHANGES

The President's 1992 budget includes more than 20 legislative proposals for veterans' benefits and services. The combined effect of these proposals would reduce function 700 spending relative to the CBO baseline by $5.6 billion (or by 3.1 percent) through 1996.

Pay-As-You-Go Policy Changes

Guaranty and Indemnity Program and Loan Guaranty Program. The President proposes several changes in the Department of Veterans Affairs (VA) programs that guarantee home loans to veterans. In the Guaranty and Indemnity program, greater restrictions would be placed on the multiple use of the loan guarantee benefit. Currently, a veteran who has paid off a guaranteed loan can receive a second loan on the same basis as the first. The President's proposal would require a 10 percent down payment and a 2.5 percent origination fee for any subsequent use of the entitlement. (Under current law, the fee for 1992 and future years ranges from 0.5 percent to 1.25 percent depending on the loan-to-value ratio.) A second proposal would permanently authorize the temporary increase in the origination fees for home loans provided by the Omnibus Budget Reconciliation Act of 1990 (OBRA). The higher fee levels are currently scheduled to expire on September 30, 1991.

Approximately 16 percent of VA mortgage guarantees are used by individuals who have had their entitlement restored after paying off an earlier guaranteed loan. Thus, around 32,000 potential homebuyers would be affected by the first proposal. Of these, about 6,500 (20 percent) would obtain financing from non-VA sources, should the proposal be enacted. An additional 3,500 borrowers would be expected to pass up the VA guarantee each year if the temporary fee increase were extended. The requirement of a 10 percent down payment on second-use guarantees would be expected to reduce the overall foreclosure rate for the affected loans by approximately 30 percent.

Two other proposals would affect both the Guaranty and Indemnity program and the Loan Guaranty program. The President proposes to have the VA cover all losses on defaulted VA loans that are held in the portfolio of the Government National Mortgage Association (GNMA). Currently, some of the loss may be passed through to the loan holder, which in this instance would be GNMA. The President also proposes to add the average net loss on defaulted loans to the net value calculation that is used to determine the agency's procedure on foreclosures. While the first proposal would reduce the no-bid rate (that is, the percentage of foreclosures in which the VA pays the

guarantee rather than the full loss on the loan) by approximately 20 percent, this reduction would be more than offset by the increase in the rate that would result from the second proposal. A net increase in the no-bid rate of 60 percent would be expected from the two options combined.

The combined budgetary effect of these proposals would reduce outlays by around $300 million a year under the reformed system of credit accounting. In addition to the reduction in loan volume discussed above, loan subsidies would be decreased by the change in the no-bid procedure and the higher fee rates. Since the new no-bid procedures would apply to all defaults, the cost of loans guaranteed before the start of credit reform would also be reduced.

Pensions. The President proposes eliminating the sunset clauses in two provisions enacted as part of OBRA. The first provision authorizes VA access to Internal Revenue Service data for the purpose of verifying the income reported by VA pensioners. Under current law this authority would expire on September 30, 1992. The extending of this authority would save an estimated $80 million from 1993 through 1996. A second proposal would eliminate the September 30, 1992, sunset date on a provision that sets a $90 pension cap for any veteran without a spouse or child who is receiving Medicaid coverage in a Medicaid-approved nursing home. This change would affect about 40,000 veterans a year and would save $547 million through 1996.

Finally, the President proposes changing the military service requirement for pension eligibility to 180 days of wartime service. Under current law, a veteran must have 90 days of active-duty service, at least one of which must be during a period of war. This requirement would save an estimated $61 million over five years and would make around 870 veterans and surviving spouses ineligible for pension benefits each year.

The combined effects of these three proposals would reduce pension outlays by between $150 million and $200 million each year from 1993 through 1996.

Compensation. The compensation program is not indexed to inflation by law. Historically, its benefits have been increased for inflation each year through legislation. The President's budget proposes to index the benefits permanently. Because the CBO baseline includes these out-year inflation increases as specified in the Balanced Budget Act, this proposal has no cost relative to the baseline.

The President also proposes to pay benefits to all new dependency and indemnity compensation (DIC) cases at a flat rate. Under current law, survivor benefits are based on the veteran's military rank. The proposed single benefit rate would be equal to the current rate for the E-6 pay grade. In addition, DIC benefits to all current E-1 through E-5 cases would be gradually increased to the E-6 level over a five-year period. All E-7 through E-10 beneficiaries now on the rolls would continue to receive benefits at the current levels. If effective at the start of 1992, this legislation would increase outlays by an estimated $325 million over the next five years and would affect the DIC benefits of approximately 219,000 survivors.

Finally, the President proposes to eliminate the sunset clause on a law that limits compensation benefits in the case of incompetent veterans (veterans who lack the mental capacity to manage their own affairs). Under current law, benefits to incompetent veterans with no dependents are discontinued when the assets of the veteran reach $25,000. This provision, which affects about 13,500 veterans, would expire on October 1, 1992. Continuing the limit would result in savings of $678 million in 1993 through 1996.

The net effect of the latter two compensation proposals would be a reduction in outlays of about $150 million in 1993, falling to a savings of only around $40 million by 1996.

Reimbursements for Medical Care. The President's budget proposes to repeal the sunset date on another provision of OBRA related to billing for services provided in VA medical facilities. The VA's authority to bill health insurers for the care of non-service-connected conditions provided to insured service-disabled veterans expires under current law on September 30, 1993. Extending this authority through 1996

would bring in an estimated $90 million in additional insurance reimbursements per year.

Readjustment Benefits. The Administration proposes to limit vocational rehabilitation benefits to veterans with service-connected disabilities rated 30 percent or higher. This would make approximately 5,600 veterans with disabilities rated at 20 percent ineligible each year and is expected to save about $115 million through 1996. A second proposal would disqualify an estimated 1,500 stepchildren from participation in the dependents' educational assistance program at a savings of $18 million over five years. Together, these proposals would reduce spending by more than $30 million a year through 1994.

Other Policy Changes

Medical Care. The President is requesting 1992 appropriation language that would delay the availability of $338 million in funds in the medical care appropriation for equipment, land, and structures until August 1, 1992. A similar obligation delay was included in the 1990 and 1991 appropriations. This proposal is expected to shift $200 million in outlays from 1992 to 1993.

Two programmatic amendments are also found in the budget for VA medical care. Under the first proposal, only veterans living more than 50 miles from a VA facility would be reimbursed for travel expenses to and from VA hospitals. This would generate savings of around $40 million annually. A second proposal, to increase the special pay provided to VA physicians and dentists, would cost approximately $40 million annually.

Finally, the out-year budget requests for medical care fail to cover the anticipated inflation assumed in the CBO baseline. By 1996, a shortfall of over $150 million is anticipated.

Reimbursements for Medical Care. The President is proposing a change in this offsetting receipt account to be effected through language in the 1992 appropriation. The amendment would repeal the September 30, 1991, sunset date on the OBRA increase in copayments

for VA medical care. The higher charges would be levied against an estimated 50,000 admissions and 700,000 outpatient visits each year. Extending the higher copayments would increase receipts by an estimated $89 million in 1992, rising to a savings of $155 million in 1996.

General Operating Expenses. The President's requested spending levels for the administration of veterans' benefits fall below the inflation-adjusted levels in the CBO baseline by increasing amounts between 1993 and 1996. By 1996, a shortfall of $232 million, more than 20 percent of the baseline total, is expected.

CBO REESTIMATES

Pay-As-You-Go Reestimates. The CBO estimate of the savings in 1992 from the President's legislative proposals in the VA housing programs exceeds the Office of Management and Budget (OMB) estimate by nearly $1 billion. This discrepancy is almost entirely the result of different scoring methods used by the two agencies for changes in laws affecting loans made before credit reform was established. Following the direction of the Budget Enforcement Act, CBO has estimated these changes under credit reform rules--that is, as the net present value of expected changes in the cash flow from pre-1992 loans displayed in the year of the change. The OMB has not followed this practice. Rather, it has estimated the effects on pre-1992 loans as the annual change in the associated cash flows.

The out-year differences in the two estimates of these proposals result from differing estimates of loan volume. The CBO baseline reflects a higher anticipated loan volume than the Administration's budget. Because of this higher loan volume, the CBO estimate of the savings from the President's proposals to increase fees on all loans and require down payments on some loans is higher than the OMB estimate.

Other Reestimates. Differences in economic assumptions cause CBO's estimates of compensation and pension outlays to be $48 million below the President's estimates in 1992, with the difference growing to $158 million in 1996. The difference results from lower COLAs underlying

CBO's estimates. (See function 650 for CBO and Administration COLA assumptions.)

As mentioned above, the CBO estimate of future loan volume in the VA home loan programs is significantly higher than the Administration's estimate. This difference not only results in a higher CBO estimate of savings from the proposed legislation, but it also causes CBO's estimate of current-law outlays to exceed OMB's estimate by $1.6 billion between 1992 and 1996. The Administration is projecting a drop in loan originations of between 5 percent and 20 percent a year. CBO's analysis of recent trends and of the demographics of the veteran population indicates that a relatively stable level of originations is more likely.

The CBO estimate of medical care spending is approximately $200 million higher than the President's estimate each year from 1992 through 1996. The medical care appropriations for 1990 and 1991 contained language delaying the availability of certain funds for obligation until August 1. These provisions reduced the first-year outlay rate in both years. The OMB baseline spend-out rate for the account appears to have been lowered in response to the slower spending in 1990 and 1991, even though the phenomenon was the result of legislation rather than changes in program activity. The effects of the Administration's proposal to delay obligations again in 1992 were then applied by OMB to this incorrectly reduced baseline rate.

The CBO outlay estimate for the Montgomery GI Bill program exceeds OMB's estimate for 1992 by $123 million, but by 1996 the CBO estimate is $67 million below OMB's. This occurs because CBO projects a higher rate of benefit use in the early years and a slightly lower rate in the out-years. Since this is a relatively new program, very little data on actual use of benefits exist. The VA estimate of participants is based largely on the experience of the old GI Bill, while the CBO estimate reflects a combination of the old GI Bill experience and that of the post-Vietnam veterans program.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 700 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	31.5	33.0	33.9	36.6	36.1	35.7
CBO Reestimates						
Pay-As-You-Go Proposals						
Housing programs	0.0	-1.0	a	-0.1	-0.1	-0.2
Other	0.0	a	0.1	0.3	0.3	0.3
Subtotal	0.0	-1.0	0.1	0.2	0.1	0.1
Other						
Economic						
Compensation and pensions	0.0	a	-0.1	-0.2	-0.2	-0.1
Technical						
Housing programs	-0.2	0.1	0.3	0.4	0.4	0.4
Medical care	-0.1	0.2	0.3	0.1	0.2	0.2
Readjustment benefits	0.1	0.2	0.1	a	a	-0.1
Other	-0.1	0.1	0.2	a	0.1	a
Subtotal	-0.3	0.5	0.9	0.5	0.5	0.4
Total	-0.3	-0.4	1.0	0.7	0.6	0.5
President's 1992 Budget as Estimated by CBO	31.2	32.6	34.9	37.2	36.8	36.2

a. Less than $50 million.

FUNCTION 750: ADMINISTRATION OF JUSTICE

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	12.3	13.7	14.3	14.9	15.5	16.2
Proposed Changes						
Pay-As-You-Go	0	0	0	0	0	0
Discretionary						
Federal Bureau of Investigation	0	0.2	0.3	0.3	0.3	0.2
Organized Crime Drug Enforcement	0	a	0.1	0.1	0.1	0.1
The Judiciary	0.1	0.4	0.4	0.5	0.5	0.5
Federal Prison System	a	0.3	0.3	0.3	0.3	0.3
Justice Assistance	0	a	-0.1	-0.1	-0.2	-0.2
Other	a	0.3	0.1	-0.1	-0.4	-0.6
Total	0.1	1.1	1.2	1.0	0.6	0.3
President's 1992 Budget as Estimated by CBO	12.3	14.8	15.6	15.9	16.1	16.5
President's 1992 Budget	12.6	14.5	15.2	15.4	15.8	17.1
CBO Reestimates	-0.2	0.3	0.4	0.5	0.3	-0.6

a. Less than $50 million.

PROPOSED POLICY CHANGES

The President's budget includes $14.8 billion in spending authority for administration of justice in 1992, a $2 billion (16 percent) increase over the 1991 appropriations. The President's proposals would result in net outlays that are $1.1 billion (8 percent) above the CBO baseline for 1992, and $4.2 billion, or 6 percent, above the baseline for the 1992-1996 period. There are no pay-as-you-go proposals in this function.

Law Enforcement Programs. Law enforcement spending would increase significantly under the proposals contained in the President's budget. The total budget authority for the law enforcement subfunction would be nearly $850 million (14 percent) higher in 1992 than in

1991. The Federal Bureau of Investigation (FBI) and the Organized Crime Drug Enforcement program would receive 20 percent increases over the 1991 level. The FBI's increase would support improvements in its field programs and the National Crime Information Center.

The Judiciary. Spending by the Judiciary also would increase significantly under the President's proposals. Spending authority for 1992 would total $2.5 billion, compared with $2.0 billion in 1991, a 25 percent increase. Most of this increase would be for the courts of appeals, district courts, and other judicial services. Under the President's budget, spending by the Judiciary would be $400 million, or 19 percent, above the CBO baseline for 1992, and $2.3 billion, or 20 percent, above the baseline over the 1992-1996 period.

Federal Prison System. The President's proposals would increase spending authority for the federal prison system by more than $450 million (27 percent) in 1992; this level is almost $350 million above the CBO baseline. Outlays in 1992 would be more than $250 million, or 12 percent, above the CBO baseline. Most of this increase is for operating expenses, primarily associated with staffing new facilities.

Justice Assistance. Under the President's proposals, spending for justice assistance would be below the baseline each year. The amount requested by the President for the Office of Justice Programs would be $80 million (12 percent) below the 1991 amount. The decrease would come almost entirely from juvenile justice grants, while spending for drug grants would remain at the 1991 level.

Other. A number of programs would be targeted for significant increases in 1992, and then held constant over the 1993-1996 period. These programs include general legal activities, the Antitrust Division, U.S. Attorneys, the Community Relations Service, and the U.S. trustees system fund. The President would hold budget authority for the Legal Services Corporation (LSC) constant at the 1991 level, resulting in a reduction in spending of almost $200 million relative to the CBO baseline from 1992 through 1996. The President's 1991 budget also proposed holding LSC budget authority constant at the current year's level.

CBO REESTIMATES

CBO estimates that spending under the Administration's policies would be higher in 1992 and over the five-year period than estimated in the budget. In general, these reestimates result from differences in estimated spending from prior-year appropriations.

FUNCTION 800: GENERAL GOVERNMENT

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline	11.1	13.3	14.2	14.6	15.0	16.0
Proposed Changes						
Pay-As-You-Go	0	a	a	a	a	a
Discretionary						
Federal Buildings Fund	0	-0.3	-0.4	-0.7	-1.4	-1.5
Internal Revenue Service	0	0.1	0.3	0.5	0.5	0.5
Legislative branch	0	0.3	0.2	0.1	a	-0.1
Federal payment to the District of Columbia	0	-0.1	-0.1	-0.1	-0.1	-0.2
Mineral leasing payments	0	a	-0.1	-0.1	-0.1	-0.1
Other	0	-0.1	-0.2	-0.3	-0.4	-0.5
Total	0	-0.1	-0.2	-0.5	-1.5	-1.8
President's 1992 Budget as Estimated by CBO	11.1	13.3	14.0	14.1	13.6	14.2
President's 1992 Budget	11.2	13.2	14.1	14.2	13.4	14.2
CBO Reestimates	-0.1	0.1	-0.2	a	0.2	a

a. Less than $50 million.

PROPOSED POLICY CHANGES

The President's budget would provide baseline levels of spending for general government activities in 1992, but would reduce spending by $3.6 billion below baseline levels over the following four years. Almost all of the President's proposals apply to discretionary programs.

Pay-As-You-Go Policy Changes

The President's proposal to charge new recreation user fees for the Forest Service (discussed in function 300) would require that payments be made to states from the proceeds. These payments would total $2.5 million per year beginning in 1992.

Discretionary Policy Changes

The President's budget would provide significant increases in spending for several general government programs, but such increases would be more than offset by cuts throughout the rest of the function.

Federal Buildings Fund. The largest change relative to the CBO baseline would result from reducing the number of new projects involving federal buildings operated by the General Services Administration (GSA). In 1991, the GSA received an unusually large appropriation, amounting to $2.5 billion, for the design, construction, and repair of border stations and more than 20 backlogged federal office buildings. Because the baseline for 1992 and beyond simply inflates the 1991 appropriation, the baseline includes sufficient funds to continue construction and repairs at the high 1991 levels for each year. The President is requesting $1.2 billion for these purposes, including only seven new buildings, cutting new project authority approximately in half. In 1992, this request would reduce spending by $0.3 billion below baseline levels.

Internal Revenue Service. The President is requesting 1992 appropriations of $6.7 billion for the Internal Revenue Service (IRS), an increase of 10 percent over the 1991 funding. Part of this increase is for improving the computer systems of the IRS, which would raise outlays by $0.2 billion above the baseline in 1992. In addition, the budget includes an IRS initiative aimed at increasing revenue collections. This proposal, similar to but smaller than those in recent years, would involve hiring 765 new employees in 1992. This initiative would require $40 million in increased spending in the first year. Chapter III provides further details on the IRS revenue initiatives and CBO's analysis of their revenue effects.

Other. The other large spending increase proposed for this function is for the legislative branch. The budget includes 1992 funding of $0.3 billion above the baseline. About half of this increase would be for the House of Representatives, and the remaining funding boosts would go primarily to the General Accounting Office, Congressional printing, and Architect of the Capitol projects. Offsetting these spending increases are many programs slated for funding below the CBO baseline.

Among these is a proposal, similar to last year's, to reduce payments to the District of Columbia from $568 million in 1991 to $536 million in 1992 and subsequent years. The President also proposes to deduct 75 percent of the administrative costs for minerals management before distributing mineral leasing payments to states. This proposal, recommended in previous budgets and enacted only for 1991, would save $0.3 billion over the 1992-1996 period.

CBO REESTIMATES

CBO's estimates of outlays for most general government programs are based on historical spending patterns and differ only slightly from the Administration's estimates. The largest differences occur in the Federal Buildings Fund, with lower outlays than estimated in the budget, and the Internal Revenue Service, for which CBO projects higher outlays than in the budget.

FUNCTION 900: NET INTEREST

PROPOSED MAJOR SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline[a]	198.9	209.8	222.1	231.7	236.1	240.0
Proposed Changes						
Debt service	b	-0.2	-0.4	-0.3	-0.1	-0.3
FHA forgiveness	0	0.6	0.7	0.8	0.9	0.9
Total	b	0.4	0.3	0.5	0.8	0.6
President's 1992 Budget as Estimated by CBO	198.9	210.2	222.4	232.2	236.9	240.6

a. Assumes compliance with discretionary spending caps.

b. Less than $50 million.

PROPOSED POLICY CHANGES

Net interest outlays cannot be controlled directly, but are determined by the government's deficit and by interest rates. As explained in Chapter I, the Administration's spending and revenue proposals create relatively little deficit reduction beyond what is required to comply with the discretionary spending caps. Further debt service savings from the President's proposals are modest, ranging between $100 million and $400 million per year.

While net interest primarily represents the government's cost of financing its debt, a variety of other interest payments and collections is also included. In particular, this category of spending reflects interest income collected by the government from loans or similar transactions. The only significant proposal in this area affects intragovernmental interest payments from the Federal Housing Administration (FHA) to the Treasury. By forgiving approximately $7.0 billion of FHA debt to the Treasury, the President's program would reduce Treasury interest income by $0.6 billion in 1992 and $0.9 billion in 1996.

This income reduction offsets lowered interest payments by the FHA that appear on the pay-as-you-go scorecard in function 370.

FEDERAL DEBT

The growth of federal debt should taper off markedly in the next five years under either the CBO baseline assuming discretionary caps or the President's budget. CBO projections of federal debt are shown in the table below. Debt held by the public is expected to top $3.5 trillion at the end of 1996, up from $2.7 trillion at the end of 1991. The pace of borrowing, though, slows sharply after 1992, as temporary factors (including the recession, Operation Desert Storm, and huge outlays for deposit insurance) fade in importance. Even though the amount of debt continues to grow, the ratio of debt to gross national product falls.

CBO PROJECTIONS OF FEDERAL DEBT HELD BY THE PUBLIC (By fiscal year)

	1991	1992	1993	1994	1995	1996
	In Billions of Dollars					
Baseline, Assuming Compliance with Discretionary Caps	2,704	2,992	3,211	3,379	3,451	3,520
President's Proposed Budget as Reestimated by CBO	2,703	2,988	3,206	3,379	3,453	3,512
Difference	-1	-5	-5	a	2	-7
	As a Percentage of GNP					
Baseline, Assuming Compliance with Discretionary Caps	48.1	49.8	50.1	49.6	47.6	45.7
President's Proposed Budget as Reestimated by CBO	48.1	49.8	50.1	49.6	47.7	45.6

SOURCE: Congressional Budget Office.

a. Less than $500 million.

CBO REESTIMATES

Reestimates of the Administration's net interest spending total $1.9 billion in 1991, $3.9 billion in 1992, and $29.6 billion in 1996. These differences stem overwhelmingly from higher interest rates and higher deficits under the Administration's plan as reestimated by CBO.

CBO assumes higher interest rates and significantly greater outlays for interest payments on the public debt than does the Administration. Reestimates attributable to this source grow from $5.0 billion in 1992 (when CBO's short-term interest rate projections are 0.8 percentage points above the Administration's, and longer-term maturities are 0.4 percentage points higher) to $15.4 billion in 1996 (when the interest rate differentials are 0.4 percentage points and 0.9 percentage points, respectively). Contrasting interest rate assumptions lead to relatively small differences in other interest.

Technical reestimates to net interest on the public debt add about $2 billion per year to outlays. These reestimates stem from a variety of factors, including differing assumptions about the composition and timing of Treasury debt issuance, means of financing the deficit outside of Treasury borrowing, the debt holdings of trust and other funds receiving Treasury interest, and other minor differences. Technical reestimates to other interest programs reduce outlays by $2.4 billion in 1992 and by $4.2 billion in 1996. These reestimates primarily reflect interest receipts the Federal Financing Bank (FFB) earns on its loans to the Resolution Trust Corporation and the Bank Insurance Fund. CBO anticipates much larger borrowing from the FFB by these agencies, and thus has larger receipts of interest earnings for the FFB.

As explained in Chapter I, CBO believes that the Administration has greatly underestimated the deficits that would result from its budget proposals. CBO's reestimates to the deficit under the Administration's plan spurt from $9 billion in 1992 to $112 billion in 1994, before subsiding, and total nearly $300 billion over the 1992-1996 period. Increased interest costs from the additional borrowing required to finance these higher deficits grow to $16.9 billion in 1996.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 900 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	197.0	206.3	212.0	215.5	213.8	211.0
CBO Reestimates						
Economic (Interest rates)						
Net interest on the public debt	0.9	5.0	11.8	14.1	15.3	15.4
Other interest	a	-0.2	-0.1	a	a	-0.2
Subtotal	0.8	4.8	11.7	14.1	15.2	15.2
Technical						
Net interest on the public debt	2.3	1.9	2.2	2.3	1.9	1.7
Receipts from deposit insurance agencies	-0.7	-2.3	-4.6	-5.5	-6.4	-4.4
Other interest	-0.2	-0.1	0.4	0.1	0.3	0.2
Subtotal	1.3	-0.5	-2.1	-3.1	-4.1	-2.5
Debt Service						
Economic	-0.3	-1.0	-1.1	0.1	2.4	5.6
Technical	a	0.6	1.8	5.6	9.6	11.3
Subtotal	-0.3	-0.4	0.7	5.7	12.0	16.9
Total	1.9	3.9	10.4	16.7	23.1	29.6
President's 1992 Budget as Estimated by CBO	198.9	210.2	222.4	232.2	236.9	240.6

a. Less than $50 million.

FUNCTION 920: ALLOWANCES

PROPOSED MAJOR SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline[a]	8.2	4.6	0.8	0.4	0	0
Proposed Changes						
Government contributions for Public Health Service Retirement	0	0.1	0.1	0.1	0.1	0.1
President's 1992 Budget as Estimated by CBO	8.2	4.7	0.9	0.5	0.1	0.1
President's 1992 Budget	8.2	4.7	0.9	0.5	0.1	0.1
CBO Reestimates	0	0	0	0	0	0

a. Placeholder estimate for the budgetary costs of Operations Desert Shield and Desert Storm.

Function 920 has traditionally been used to hold money that, for various reasons, cannot easily be allocated by function or agency elsewhere in the budget.

In its baseline, CBO has copied the President's placeholder estimate for the extra budgetary costs of Operation Desert Storm in this function, a treatment that highlights their special nature. The budget was prepared just before the outbreak of hostilities; even now, as armed conflict has come to an end, the budgetary costs remain conjectural. The President's budget assumed that Operation Desert Storm would cost a total of $29 billion over several years, and that allied contributions would total $15 billion. The resulting net cost of $14 billion is concentrated in fiscal years 1991 and 1992, with small amounts in later years. CBO has adopted these same assumptions for its baseline, as shown above. These expenditures have yet to be appropriated, and a supplemental appropriation request (eligible for special treatment under the Budget Enforcement Act) is now before the Congress. More discussion of the costs of Operation Desert Storm appears in Chapter IV on the defense budget.

Because CBO has adopted the President's assumptions about Operation Desert Storm, the only remaining policy change in this function is a small one. The President proposes new, accrual-based rules for agency contributions to Public Health Service Retirement, akin to the arrangement for many other federal staff retirement plans. The proposal would require additional contributions by several agencies on behalf of their workers, amounting to about $100 million a year. The extra contributions are placed in this function; the offsetting receipts are in function 950 of the budget.

CBO has no reestimates to the President's proposals for function 920.

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

PROPOSED SPENDING CHANGES
(By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline[a]	-39.6	-38.8	-39.8	-40.9	-41.9	-43.1
Proposed Changes						
Pay-As-You-Go						
Employer's share of employee retirement	0	-0.2	-0.2	2.8	2.5	2.3
Discretionary						
Spectrum auction	0	0	0	-0.8	-1.2	-0.5
Other Changes						
Lease of Arctic National Wildlife Refuge	0	0	0	-1.6	c	-0.9
Lease of naval petroleum reserves[b]	0	-1.0	-0.3	-0.3	-0.3	-0.3
Sale of Alaska PMA[b]	0	-0.1	0	0	0	0
Subtotal	0	-1.1	-0.3	-1.9	-0.3	-1.2
Total	0	-1.3	-0.5	0.1	1.0	0.6
President's 1992 Budget as Estimated by CBO	-39.6	-40.1	-40.3	-40.7	-40.9	-42.5
President's 1992 Budget	-39.1	-40.8	-43.7	-41.4	-44.8	-44.9

a. Adjusted to reflect reductions in Department of Defense civilian and military employment related to the discretionary caps.

b. The receipts from the proposed lease of the naval petroleum reserves and the proposed sale of the Alaska Power Marketing Administration (PMA) are shown in function 950. Outlays in function 270 would increase, relative to the baseline, after these proposed asset transactions, because the assets would no longer generate direct receipts to the government.

c. Less than $50 million.

PROPOSED POLICY CHANGES

The budget includes measures that would increase undistributed offsetting receipts by $1.3 billion in 1992. The President proposes to sell the rights to oil and gas production at the naval petroleum reserve (NPR) at Elk Hills, the Alaska Power Marketing Administration (PMA), and oil and gas exploration and development rights for the Arctic National Wildlife Refuge (ANWR). The budget also includes

proposed fees for the rights to use communications frequencies. Finally, a number of proposals would affect the amounts agencies contribute for employee retirement, which appear as receipts in this function. Most of these proposals are similar or identical to ones that appeared in previous budgets.

Pay-As-You-Go Policy Changes

The President's budget proposes to make the Postal Service pay for any remaining unfunded liability resulting from pre-1991 cost-of-living adjustments (COLAs). These payments would increase offsetting receipts by $132 million in each year, 1992 through 1996.

Another proposal would establish an accrual-based retirement system for Public Health Service (PHS) commissioned corps officers. Currently, retired pay and survivor annuities for PHS retired officers and their survivors are funded through a pay-as-you-go system. Increased employer contributions to the retirement system would raise offsetting receipts by $97 million in 1992 and $530 million over the 1992-1996 period.

The President proposes to change the method used to calculate the Department of Defense's contribution for military retirement beginning in 1994. This change would lower the department's payment by a total of about $8.4 billion over the 1994-1996 period.

Discretionary Policy Changes

Spectrum Auction. The President proposes to free up 30 megahertz of the electromagnetic spectrum for competitive bidding and assignment by the Federal Communications Commission (FCC) during the 1994-1996 period. Under the proposal, current commercial and federal government users would be moved from their existing frequencies, and the FCC would auction the freed-up frequencies for new commercial users. The Administration estimates that the sale of the frequencies would generate additional receipts of about $4.5 billion over the three-year period; these gross receipts would be reduced by about $2 billion in

costs to replace the equipment of displaced government users. The Administration estimates that net proceeds to the federal government would be $0.8 billion in 1994, $1.2 billion in 1995, and $0.5 billion in 1996. CBO believes that these estimates are reasonable.

Other Policy Changes

CBO considers the proposed sale of rights to produce petroleum products at the Elk Hills oilfield and to explore for and develop oil and gas on the ANWR to be asset sales. The government owns lands and minerals that are considered a physical asset. When the government leases such an asset to a nonfederal entity for the purposes of depleting that asset (by extracting the mineral resources), the asset that would be returned to the federal government at the expiration of the lease is different and of lesser value (the land minus the minerals). CBO believes that the value lost equals an asset sold. The monies received by the federal government are equivalent to the purchase price for those assets and should not be counted as receipts for the purposes of deficit reduction.

Naval Petroleum Reserves. The President proposes to sell the rights to produce petroleum products at the government's Elk Hills, California, oilfield (NPR-1) through a long-term lease. The buyer(s) of these rights would pay the government $1 billion in 1992 and additional amounts over the 1993-1996 period. Over a seven-year period, the State of California would receive 7 percent of these bonus payments. The federal government and California would share equally in royalties on future production, which would be paid at a rate of 12.5 percent. CBO estimates that the federal share of NPR-1 royalties and bonus payments would total $2.2 billion over the 1992-1996 period. These receipts would be partially offset (in function 270) by a loss of about $1.5 billion in net income that the government would otherwise receive over the five-year period from selling NPR-1 products. The government would forgo additional net income in years after 1996 as well. The President also proposes to use some of the royalty and bonus payment receipts to establish a defense petroleum inventory (DPI) of 10 million barrels. Expenditures for the proposed DPI are included in function 270. They would total about $150 million over the 1992-1996 period and an additional $150 million after 1996.

Sale of Power Marketing Administrations. The President proposes to sell the Alaska PMA at the end of 1992. CBO believes that the Alaska PMA could be sold in 1992, with proceeds totaling $85 million. This income would be partially offset by the loss of income that the government would receive if it kept the PMA. This loss would appear in function 270 and would amount to $33 million over the 1993-1996 period and more in subsequent years.

Arctic National Wildlife Refuge. The President proposes opening the ANWR to exploration and drilling for oil and gas, with lease sales occurring in 1993 and 1995. CBO expects that lease sales would occur instead in 1994 and 1996, with receipts from bonus bids totaling $1.6 billion and $0.9 billion, respectively.

CBO REESTIMATES

CBO estimates that outlays in this function would be above the Administration's estimate by $0.7 billion in 1992 and by $11.1 billion over the 1992-1996 period. Reestimates of receipts from agencies' contributions for employee retirement and from ANWR lease sales account for most of the reestimates.

Employer's Share of Employee Retirement. CBO's estimates of employer contributions to civil service retirement and Social Security reflect the budget's proposed reductions in the size of the military forces and in the number of civilians working for the Department of Defense. The Administration does not include these reductions in its estimates of employer contributions to these accounts. As a result, CBO's estimate of offsetting receipts is lower by about $330 million in 1992 and $5.6 billion over five years.

The remaining difference in agency payments to civil service retirement--$5.1 billion over five years--stems largely from different assumptions about how quickly the work force is moving out of the Civil Service Retirement System (CSRS) and into the Federal Employees' Retirement System (FERS). Employers contribute 7 percent for CSRS employees and 13 percent for FERS employees.

Arctic National Wildlife Refuge. The President proposes to open the ANWR to oil and gas exploration and development. Assuming that legislation would be enacted by June 1991, lease sales would be held on a 24-month cycle, with the first two sales occurring in fiscal years 1993 and 1995. CBO assumes that any action by the Congress is likely to occur later--by early in fiscal year 1992--and that the first two lease sales could not occur until 1994 and 1996. CBO also projects that bonus bids from competitive bidding would be about $600 million lower than estimated by the Administration over the 1992-1996 period.

Outer Continental Shelf. CBO's estimate of receipts from Outer Continental Shelf leasing is higher than the President's primarily because CBO assumes higher oil prices.

CBO REESTIMATES OF PROPOSED SPENDING IN FUNCTION 950 OF THE PRESIDENT'S BUDGET (By fiscal year, outlays in billions of dollars)

	1991	1992	1993	1994	1995	1996
President's 1992 Budget	-39.1	-40.8	-43.7	-41.4	-44.8	-44.9
CBO Reestimates						
Pay-As-You-Go Proposals	0	0	0	0	0	0
Other						
Employer's share of employee retirement	-0.6	0.9	1.6	2.2	2.8	3.2
Lease of Arctic National Wildlife Refuge	0	0	1.9	-1.6	1.2	-0.9
Lease of naval petroleum reserves	0	0.2	0.1	0.1	0.1	0.1
Outer Continental Shelf	0.1	-0.4	-0.2	-0.1	-0.2	0.1
Total	-0.5	0.7	3.4	0.7	3.9	2.4
President's 1992 Budget as Estimated by CBO	-39.6	-40.1	-40.3	-40.7	-40.9	-42.5

APPENDIXES

APPENDIX A

BASELINE BUDGET PROJECTIONS

Throughout this volume, the Administration's proposals are compared and contrasted with the CBO baseline estimates of the budget. The baseline shows the path of revenues and spending if current laws and policies remain unchanged. It is not a forecast of budget outcomes, since policymakers will certainly adopt many changes in policies and priorities. But the baseline is a valuable benchmark for highlighting the potential impacts of proposed changes, such as those advocated in the President's budget.

The baseline projections follow familiar rules. For revenues and entitlement programs (such as Social Security and Medicare), as well as offsetting receipts, the baseline represents the best estimate of what would happen under current laws. Expiring provisions of law are assumed to expire as scheduled, with two important exceptions. The baseline assumes that excise taxes dedicated to trust funds (such as the Highway Trust Fund) and any large entitlement programs will continue past their current expirations--two assumptions that are explicitly stated in law.

For defense and nondefense discretionary programs, the baseline simply adopts the fiscal year 1991 appropriation, adjusted in future years to keep pace with inflation. This practice, which amounts to preserving the real resources of such programs, is long-established in convention and law. The discretionary spending caps contained in the Budget Enforcement Act, though, complicate the baseline's meaning for such programs. Growth in the caps falls short of projected inflation, especially in the defense area. Thus, policymakers must decide how they will comply with the caps. Because the caps will force trade-offs among many programs, there are literally thousands of possible ways to comply with them. CBO cannot present projections of how particular programs or functions will fare under the caps, but it can depict the implications of the caps for budget aggregates.

CBO's report, *The Economic and Budget Outlook: Fiscal Years 1992-1996* (January 1991), described the baseline projections in detail. Since then, CBO has made modest revisions to its baseline projections, largely to reflect information that became available with the release of the President's budget in early February. Changes in the CBO baseline estimates are summarized in Table A-1.

An executive order in late January and subsequent legislation triggered and then expanded special income tax provisions for service

TABLE A-1. REVISIONS TO THE CBO BASELINE
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO January 1991 Baseline Deficit[a]	298	284	215	160	57	56
Revisions						
Revenues[b]	1	c	c	c	1	1
Desert Shield/Desert Storm	8	5	1	c	0	0
Sallie Mae repayments	c	c	c	c	c	-4
Medicaid	2	2	3	3	4	5
Employer's share of employee retirement	0	1	2	3	5	5
Net interest[d]	-1	1	1	2	3	4
Other outlays	1	1	c	c	-1	-1
Total	11	10	6	9	12	9
CBO March 1991 Revised Baseline Deficit[a]	309	294	221	169	69	66

SOURCE: Congressional Budget Office.

a. Assumes compliance with discretionary spending caps.

b. Revenue reductions are shown as positive because they raise the deficit.

c. Less than $500 million.

d. Excludes the reclassification of certain payments as net interest, which does not affect budget totals.

members in the Persian Gulf combat zone. Other changes in the revenue projections are minor. On the outlay side, CBO has incorporated new estimates of the budgetary impact of Operation Desert Storm. The budgetary costs of the conflict and the amounts that allied nations will contribute remain highly uncertain. As a result, CBO has simply adopted the same placeholder estimates as the Administration in an effort to reduce confusion in the meantime. Desert Storm's costs qualify for special treatment under the Budget Enforcement Act and will be addressed in a supplemental appropriation, which is wending its way through the legislative process. Other revisions reflect the expected repayment of some Student Loan Marketing Association (Sallie Mae) debt, mainly in 1996; higher anticipated Medicaid spending; and shrunken contributions to employee retirement plans as a consequence of assumed defense cutbacks (discussed further below). Finally, net interest outlays are raised consistent with the other revisions.

The caps on discretionary spending imply significant savings from the conventional, inflation-adjusted baseline. In 1992 and 1993, the caps essentially freeze defense budget authority at 1991 dollar levels, requiring large reductions from the inflation-adjusted path. (Again, costs associated with Operation Desert Storm lie outside the coverage of the defense caps.) Smaller savings would be required in the domestic discretionary area, and hardly any savings at all in international discretionary spending. After 1993, a single cap applies to the three categories--defense, international, and domestic--combined. These implications of the caps are depicted in Table A-2.

Complying with the caps will inevitably imply cutbacks in the armed forces and in civilian employment at the Department of Defense (DoD). In fact, last year's defense authorization bill set a specific target for the number serving in the armed forces at the end of 1995. The DoD will save money on retirement contributions as a result. However, since such payments are intrabudgetary, this particular DoD saving does not lead to lower deficits. Table A-2 shows the loss in such retirement contributions associated with the defense savings. Ultimately, of course, the defense cutbacks will lead to genuine savings in future benefit payments by military retirement and other programs, but this effect lies largely beyond the five-year projection horizon.

Finally, complying with the caps will yield large and growing savings in federal government's debt service costs.

Federal revenues, spending, and the deficit assuming compliance with the caps are recapitulated in Table A-3. The federal deficit is ex-

TABLE A-2. SAVINGS REQUIRED TO COMPLY WITH THE DISCRETIONARY SPENDING CAPS
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995	1996
CBO Baseline Deficit, Without Caps	309	307	242	217	134	137
Further Reductions						
Defense discretionary	0	-10	-19	a	a	a
International discretionary	0	b	b	a	a	a
Domestic discretionary	0	-4	-3	a	a	a
Subtotal	0	-13	-22	-47	-61	-63
Employer's share of employee retirement	0	1	2	3	5	5
Debt service	0	-1	-2	-4	-8	-13
Total	0	-13	-21	-48	-65	-71
CBO Baseline Deficit, With Caps	309	294	221	169	69	66
Memoranda:						
Deficit Excluding Deposit Insurance	205	197	174	145	116	108
Deficit Excluding Social Security and Postal Service (On-Budget Deficit)	369	364	301	266	181	194

SOURCE: Congressional Budget Office.

a. A single cap applies to the three categories of discretionary spending--defense, international, and domestic--in 1994 and 1995. The assumed cap for fiscal year 1996 represents a CBO extrapolation.

b. Less than $500 million.

TABLE A-3. CBO BASELINE BUDGET PROJECTIONS, ASSUMING COMPLIANCE WITH DISCRETIONARY SPENDING CAPS (By fiscal year)

	1991	1992	1993	1994	1995	1996
	In Billions of Dollars					
Revenues						
Individual income	488	529	569	612	660	705
Corporate income	99	103	107	109	109	111
Social insurance	404	433	464	496	528	560
Other	101	105	111	115	119	119
Total	1,093	1,169	1,251	1,331	1,415	1,495
Outlays						
Defense discretionary	301	296	293	a	a	a
International discretionary	19	20	20	a	a	a
Domestic discretionary	199	212	225	a	a	a
Subtotal	519	527	538	538	543	563
Desert Storm	8	5	1	b	0	0
Mandatory[c]	572	624	664	706	752	801
Deposit insurance	103	97	47	25	-47	-43
Net interest	199	210	222	232	236	240
Total	1,402	1,463	1,472	1,501	1,484	1,561
Deficit	309	294	221	169	69	66
	As a Percentage of GNP					
Revenues						
Individual income	8.7	8.8	8.9	9.0	9.1	9.1
Corporate income	1.8	1.7	1.7	1.6	1.5	1.4
Social insurance	7.2	7.2	7.2	7.3	7.3	7.3
Other	1.8	1.7	1.7	1.7	1.6	1.6
Total	19.4	19.5	19.5	19.5	19.5	19.4
Outlays						
Defense discretionary	5.4	4.9	4.6	a	a	a
International discretionary	0.3	0.3	0.3	a	a	a
Domestic discretionary	3.5	3.5	3.5	a	a	a
Subtotal	9.2	8.8	8.4	7.9	7.5	7.3
Desert Storm	0.1	0.1	d	d	0.0	0.0
Mandatory[c]	10.2	10.4	10.4	10.4	10.4	10.4
Deposit insurance	1.8	1.6	0.7	0.4	-0.6	-0.6
Net interest	3.5	3.5	3.5	3.4	3.3	3.1
Total	24.9	24.4	23.0	22.0	20.5	20.3
Deficit	5.5	4.9	3.5	2.5	0.9	0.9

SOURCE: Congressional Budget Office.

NOTE: The projections include Social Security and the Postal Service, which are off-budget.

a. A single cap applies to the three categories of discretionary spending--defense, international, and domestic--in 1993 through 1995. The assumed cap for fiscal year 1996 represents a CBO extrapolation.

b. Less than $500 million.

c. Includes entitlement and mandatory spending and offsetting receipts.

d. Less than 0.05 percent of GNP.

pected to hover around the $300 billion mark in 1991 and 1992. These record-breaking deficits, however, partly reflect temporary factors: the recession, which holds down revenues and boosts spending; the current hemorrhage of spending on deposit insurance; and the assumed budgetary impacts of Operation Desert Storm. If policymakers comply with the pay-as-you-go rules and the discretionary spending caps contained in last fall's agreement, the outlook is for a steadily declining deficit--amounting to $66 billion, or just 0.9 percent of GNP, by 1996.

APPENDIX B

MAJOR CONTRIBUTORS TO THE REVENUE AND SPENDING PROJECTIONS

The following analysts prepared the revenue and spending projections in this report:

Revenue Projections

Mark Booth	Corporate income taxes, Federal Reserve System earnings
Leonard Burman	Individual income taxes
Maureen Griffin	Social insurance contributions, excise taxes, estate and gift taxes
Jon Hakken	Corporate income taxes
Katherine Johnson	Excise taxes, NIPA receipts
Richard Kasten	Individual income taxes
Kathleen O'Connell	Individual income taxes
Larry Ozanne	Individual income taxes
Linda Radey	Individual income taxes, excise taxes
Pearl Richardson	Individual and corporate income taxes
Frank Sammartino	Individual income taxes
John Stell	Customs duties, miscellaneous receipts

Spending Projections

Defense and International Affairs

Eugene Bryton	Defense
Kent Christensen	International affairs
Raymond Hall	Defense
Barbara Hollinshead	Defense

Spending Projections (continued)

Defense and International Affairs (continued)

William Myers	Defense
Amy Plapp	Defense
Lisa Siegel	Defense
Joseph Whitehill	International affairs

Human Resources

Diane Celuch	Social service programs, Head Start
Sandra Clark	Child nutrition, veterans' compensation and pensions
Paul Cullinan	Social Security
Cathy Ellman	Civil Service Retirement, Railroad Retirement
Alan Fairbank	Hospital Insurance
Karen Graham	Public Health Service
Scott Harrison	Medicare
Holly Harvey	Supplementary Medical Insurance
Jean Hearne	Medicaid
Lori Housman	Medicare
Julia Isaacs	Food stamps, foster care, child care
Deborah Kalcevic	Education
Cory Oltman	Unemployment insurance, training programs, veterans' education
Janice Peskin	Aid to Families with Dependent Children, child support enforcement
Pat Purcell	Supplemental Security Income, Medicaid
Kathleen Shepherd	Veterans' benefits

Natural and Physical Resources

Philip Bartholomew	Deposit insurance
Laura Carter	Commerce, deposit insurance

Spending Projections (continued)

Natural and Physical Resources (continued)

Kim Cawley	Energy, pollution control and abatement
Patricia Conroy	Community and regional development, general government
Peter Fontaine	Energy
Theresa Gullo	Water resources, conservation, and land management
James Hearn	General government, Agricultural Credit Insurance Fund, Outer Continental Shelf receipts
David Hull	Agriculture
Thomas Lutton	Deposit insurance
Mary Maginniss	Deposit insurance
Eileen Manfredi	Agriculture
Marjorie Miller	Transportation, Federal Housing Administration
Andrew Morton	Agriculture
Deborah Reis	Recreation, water transportation
Mitchell Rosenfeld	Air transportation, justice, Postal Service
Brent Shipp	Housing and mortgage credit
Michael Sieverts	Science and space, justice, natural resources

Other

Janet Airis	Appropriation bills
Edward Blau	Appropriation bills
David Elkes	National income and product accounts, other interest
Betty Embrey	Appropriation bills
Kenneth Farris	Computer support
Danila Girerd	Credit budget
Glen Goodnow	Authorization bills

Spending Projections (continued)

Other (continued)

Alice Grant	Appropriation bills
Vernon Hammett	Computer support
Sandra Hoffman	Computer support
Richard Krop	Civilian agency pay, historical data
Fritz Maier	Computer support
Rodney Rasmussen	Net interest on the public debt
Kathy Ruffing	Treasury borrowing, interest, and debt
Robert Sempsey	Appropriation bills
Jeff Swersey	Computer support
Rick Williams	Computer support

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